QUINCY MEDICAL GROUP

March 28, 2019

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MAR 29 2019

HEALTH FACILITIES &
SERVICES REVIEW BOARD

Via Federal Express – Overnight Delivery
Members, Illinois Health Facilities and Services Review Board
Ms. Courtney R. Avery
Mr. Michael Constantino
525 West Jefferson Street, Second floor
Springfield, Illinois 62761

Re: Project 18-042, Quincy Medical Group Surgery Center
Additional Information Subsequent to Intent to Deny
QMG Financial Viability

Dear Board Members, Ms. Avery, and Mr. Constantino:

The purpose of this letter is to directly address comments made during the March 5, 2019 Board meeting ("March 5 Meeting") and to provide additional information further demonstrating QMG's financial stability and strength.

I. QMG HAS COMMITTED TO EARMARK 45 DAYS CASH ON HAND FOR THE PROPOSED PROJECT.

At the outset, to address comments made by the Board's Staff during the March 5 Meeting in relation to QMG's cash on hand and financial viability in relation to the proposed project,[1] QMG has voluntarily agreed to earmark 45 days cash on hand, or approximately $1.8 million, for the proposed surgery center project through the project's completion and for a period of 18 months following project completion. As discussed below, 45 days cash on hand is the State's benchmark for an ASTC. (**Exhibit 1**, QMG Commitment regarding Earmark of Cash on Hand.)

II. QMG'S PROJECT SUBSTANTIALLY COMPLIES WITH THE BOARD'S FINANCIAL CRITERIA.

As noted in the Board's Staff Report prepared in advance of the March 5 Meeting ("Initial Staff Report"), QMG demonstrated compliance with a majority of the financial criteria (5 of the 7 applicable criteria). QMG satisfied one such review criterion, 77 Ill. Adm. Code 1120.120 – Availability of Funds, by providing documentation that it had sufficient financial resources available to fund the proposed project. (**Exhibit 3**, p. 33 of Initial Staff Report; see also pgs. 33-38 regarding QMG's compliance with a majority of the financial criteria).

The two negative findings (of the 7 applicable criteria) were in relation to the reasonableness of project costs criterion (77 Ill. Adm. Code 1120.140(c)) and financial viability ratio criterion (77 Ill. Adm. Code 1120.130).

[1] A comment was made during the March 5 Meeting that QMG's reported cash on hand was "low" in comparison to State standards – specifically pertaining to QMG's reported cash on hand on December 31, 2017. QMG's cash on hand varies throughout the year, and December 31st is typically the lowest cash balance of the year, as is the normal practice of for-profit companies. As noted during QMG's presentation to the Board, QMG's cash on hand typically ranges from 10-25 days throughout the year. (**Exhibit 2**, p. 345of Draft Transcript.)

A. QMG's Project Satisfies the Reasonableness of Project Costs Criterion.

While the Board's Staff initially issued a negative finding in relation to the reasonableness of project costs criterion, the project does, in fact, comply with the reasonableness of project costs criterion. As noted by the Board's Staff at the March 5 Meeting, a CT scanner, which is not part of the proposed ASTC space and totals approximately $600,000, was initially included in the total movable equipment cost amount, thereby exceeding the State standard for equipment costs per operating room. (**Exhibit 4,** p. 300 of Draft Transcript.) Since the CT scanner is not part of the ASTC space, its cost is removed from the calculation of equipment cost per surgery room, the project satisfies the reasonableness of project costs criterion, and a positive finding results.

B. The Board's Financial Viability Ratios Are Not an Appropriate Indicator of QMG's Financial Viability.

The sole remaining negative financial viability criterion in relation to the proposed project requires that an applicant demonstrate compliance with specific, enumerated financial ratios. See 77 Ill. Adm. Code 1120.130. Many of the State's financial viability ratios, however, are driven by the amount of days of cash on hand. While the State has standards for cash on hand for hospitals (75 or more days), long-term care facilities (45 or more days), end stage renal dialysis facilities (45 or more days), and ambulatory surgical treatment centers (45 or more days), it does not have a cash on hand standard for physician medical groups. 77 Ill. Adm. Code 1120, Appendix A. As the Board's Staff correctly noted during the March 5 Meeting, because QMG is a physician medical group and the standards or benchmarks used by the Board were not developed for a physician medical group, it was difficult for the Board's Staff to assess the project's compliance with the criterion. (**Exhibit 5**, p. 303 of Draft Transcript.)

QMG was unable to meet several of the State's financial viability ratios solely due to its practice of retaining cash on hand. This is due to the fact that, as is the practice of many other physician medical groups, QMG often uses cash to invest in new service lines, purchase equipment, pursue facility improvements, and make other allowable distributions (such as distributions to its members after all other financial objectives have been achieved). As a physician group, it would not be prudent for QMG to retain cash reserves like a not-for-profit hospital. Not-for-profit hospitals often need to demonstrate significant available cash on hand to sustain or receive more favorable bond ratings. QMG does not have this incentive to retain cash as QMG does not issue tax-exempt bonds nor does it have a bond rating.

As an exercise to show financial strength, QMG presented a separate table of ratios with its application to demonstrate what the ratios would be if QMG were to retain cash rather than allocate cash through allowable distributions. (**Exhibit 6,** Attachment 35, p. 125 of QMG Application.) This second set of ratios is a valid measure of the strong capability of the organization to generate cash. All of the ratios exceed State standards. These ratios are appropriate indicators of financial viability, which is a metric concerned with the ability to generate significant and sufficient revenues, not just with the ability to accumulate a bank of cash.

QMG has maintained and increased its financial viability over the years while still minimizing its cash on hand at the end of each year. How QMG's funds are used (e.g., not stockpiled as cash, as measured by ratios) is not the best or most appropriate metric of its ability to generate cash or of its financial viability.

III. QMG IS A FINANCIALLY STRONG, STABLE, AND VIABLE GROUP.

QMG has the qualifications, background, character, and financial resources to adequately provide the proposed healthcare services to the Adams County community. QMG has provided quality healthcare to residents in Adams County for more than 80 years. We are the fourth largest employer in Adams County.

Our annual revenue is over $200 million. Over the last 25 years, we have thrived, grown, and invested in many large projects, including two medical office buildings totaling approximately $35 million for the land, building, and equipment. Over the past decade, our revenues and earnings have tripled, and our number of physicians has increased by 50%. There is no question that QMG is financially viable and has the financial resources to adequately provide the proposed services to the community. The monthly, quarterly, and annual performance of QMG revenues exceeding expenses is indicative of a financially strong organization.

As noted in the letter submitted by our lender, Bank of Springfield, we have met all of our financial obligations in a timely manner and have worked closely with the bank on our long-term financial planning. (**Exhibit 7**, February 8, 2019 Letter of Support from Bank of Springfield.) On behalf of Bank of Springfield, Mr. Tom Marantz, Chairman and CEO of Bank of Springfield, has attested to our group's solid financial leadership demonstrated through our consistent and long-term growth. For many years, QMG has had an available line of credit with Bank of Springfield, which has ***never*** been tapped or borrowed on. In the unlikely event they are needed, these funds will be available to meet any working capital needs of the proposed project, in addition to cash on hand and other borrowings.

Thank you for your consideration of this additional information. Please feel free to contact us with any questions or concerns.

Sincerely,

Carol Brockmiller

Carol Brockmiller, CMPE
Chief Executive Officer
Quincy Medical Group

Patricia A. Williamson

Patty Williamson
Chief Financial Officer
Quincy Medical Group

QUINCY MEDICAL GROUP

March 28, 2019

HFSRB Members
Ms. Courtney Avery
Mr. Mike Constantino
525 West Jefferson Street, 2nd floor
Springfield, Illinois 62761

Re: Financial Commitment

Dear HFSRB Members, Ms. Avery, and Mr. Constantino:

This letter conveys Quincy Medical Group's commitment to earmark 45 days cash on hand, or approximately $1.8 million, for the proposed surgery center project through the project's completion and for a period of 18 months following project completion.

Sincerely,

Carol Brockmiller

Carol Brockmiller, CMPE
Chief Executive Officer
1025 Maine Street
Quincy, Illinois 62301

Subscribed and sworn to me this 28th day of March, 2019

Joann Eversden
Signature of Notary Public

"OFFICIAL SEAL"
JOANN EVERSDEN
Notary Public, State of Illinois
My Commission Expires 09/27/21

the application was as of December 31st, 2017, a snapshot of one business day in the year. Cash on hand varies throughout the year, and December 31st is normally the lowest cash balance of the year, as is normal practice in for-profit companies. Days' cash on hand ranged from 10 to 25 days during 2018.

Second, unlike not-for-profit organizations like Blessing Hospital that seek and receive significant tax exemptions, QMG is a for-profit entity, so all profits of the group are subject to Federal and State corporate income tax. From 2013 to 2017 we paid per year more than $1 million in Federal income tax and more than $300,000 in State income tax.

The building where our project will be located generates approximately $64,000 in taxes per year. We also pay property tax on all our property. From 2016 to 2018 we paid more than $2 million in property taxes.

That's a huge source of revenue for our local government and schools. Our project will also be taxable and generate additional Federal and State income tax and property tax.

XII. FINANCIAL VIABILITY

A) Criterion 1120.120 - Availability of Funds

The Applicant must document that that financial resources will be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources.

The Applicants are funding this project with cash in the amount of $1,767,096, a mortgage (loan) of $4,928,593 from the Bank of Springfield and operating leases for space and equipment with a Fair Market Value of $12,823,368[9]. The lease for the space has been negotiated and signed contingent on the State Board's approval of this project. The Applicant provided four years of audited financial statements (2014 thru 2017) and that information is included in the State Board's packet of information. Additionally a letter from the Bank of Springfield Chairman of the Board has been received stating the Bank is committed to lending $4.93 million. Based upon the information reviewed there is sufficient resources to fund this project.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY (77 ILAC 1120.120)

B) Criterion 1120.130 – Financial Viability

Applicants that are responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion

To address this criterion the Applicant provided the ratio information prepared from the audited financial statements. Also included were ratio information prepared without the discretionary payments that are outlined below in the table entitled Discretionary Payments. These discretionary payments are salary (bonuses) for physicians that are part of the Quincy Medical Group.

Table One below represents the financial ratios required by the State Board.

Table Two below represents the financial ratios without the discretionary payments.

The Applicant stated "*The ratio tests of financial feasibility using the required formulas show that Quincy Medical Group will not meet some of the ratios. This is due to the fact that cash is often used for discretionary distributions to its members and as an opportunity to obtain equipment or pursue facility improvements. QMG does not have the same incentives to retain cash as non-profits do, which helps not-for-profits get more favorable bond ratings. QMG does not have a bond rating. Discretionary cash is spent only when all other financial objectives have been achieved. The following table* **[Table Two]** *of ratios shows the results if discretionary cash had been held within the organization. If even a portion of the cash had been retained on the organization's books, all financial ratios*

[9] An **operating lease** is a contract that allows for the use of an asset but does not convey rights of ownership of the asset. An **operating lease** represents an off-balance sheet financing of assets, where a **leased** asset and associated liabilities of future rent payments are not included on the balance sheet of a company.

would have been achieved. In this case, all financial ratios are met, demonstrating that Quincy Medical Group has financial strength and viability."

Staff Analysis

The State Board Staff is required to review the financial ratios that have been prepared based upon the audited financial statements. The Applicant does not meet the Net Margin % and days cash on hand for all years presented and the cushion ratio for years 2015 thru 2023 projected.

These discretionary payments to members of the medical group for the years 2014 thru 2017 are below.

Discretionary Payments (salary and bonuses)

Year	2014	2015	2016	2017
Amount	$17,300,298	$23,902,233	$19,488,892	$20,510,356

Quincy Medical Group
Financial Viability without Discretionary Payments

Table One		Historical				Projected
Financial Ratios	State Standard	2014	2015	2016	2017	2023
Current Ratio	1.5	1.9	1.8	1.8	1.9	1.7
Net Margin Percentage	3.50%	1.90%	-2.10%	0.20%	0.40%	0.60%
Percent Debt to Total Capitalization	<80%	56.00%	62.00%	62.00%	64.00%	63.00%
Projected Debt Service Coverage	>1.75	3.42	0.88	1.97	12.16	1.95
Days Cash on Hand	>45 days	20	3	1	4	9
Cushion Ratio	>3	3.7	0.6	0.2	0.8	1.2

Quincy Medical Group
Financial Viability with Discretionary Payments

Table Two		Historical			
Financial Ratios	State Standard	2014	2015	2016	2017
Current Ratio	1.5	2.2	1.9	2	2.2
Net Margin Percentage	3.50%	13.9%	13.2 %	11.5%	11.1%
Percent Debt to Total Capitalization	<80%	56.00%	62.00%	62.00%	64.00%
Projected Debt Service Coverage	>1.75	11.99	12.29	9.85	10.21
Days Cash on Hand	>45 days	75	68	51	50
Cushion Ratio	>3	12.3	12	8.1	8.8

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY (77 ILAC 1120.130)

Exhibit 3

A) Criterion 1120.140 (a) – Reasonableness of Financing Arrangements

A) The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:

1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or

2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:

A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or

B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

Carol Brockmiller, CEO Quincy Medical Group provided the following:

"Quincy Medical Group will be the owner, operating entity and licensee for the Ambulatory Surgical Treatment Center proposed at 3347 Broadway, Quincy, IL. This letter is being submitted in accordance with the requirements of Section 1120.140 - Economic Feasibility, subsections A and B. As part of the financial arrangement for the project, Quincy Medical Group will take out a loan of approximately $4.9 million. Borrowing is less costly than liquidating existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60 day period. The loan will be at the best terms available in the market, offering the lowest net cost. In addition, the project involves the leasing of existing space, rather than the purchase or construction of a building. Expenses incurred with the leasing of the facility are less costly than the construction of a new building."

The Applicant has met the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION REASONABLENESS OF FINANCING ARRANGEMENTS (77 ILAC 1120.140 (a))

B) Criterion 1120.140 (b) – Terms of Debt Financing

Applicants with projects involving debt financing shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

1) That the selected form of debt financing for the project will be at the lowest net cost available;

2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;

3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment

Exhibit 3

Tom Marantz, Chairman of the Board of Bank of Springfield provided the following information regarding the loan:

"As Quincy Medical Group's primary lender and depository institution, Bank of Springfield is familiar with QMG's financial statements and financial practices. QMG is a company with solid financial leadership that is demonstrated by its consistent and long-term growth. The group has met all of its financial obligations in a timely manner and has worked closely with the bank on its long-term financial planning. Subject to the final plans and all regulatory approvals, Bank of Springfield is committed to loaning Quincy Medical Group up to $4.93 million dollars for the purchase of medical equipment and other costs necessary for the proposed surgery center. As with every loan, this loan is subject to satisfactory due diligence to be performed by Bank of Springfield with the cooperation of QMG and agreement on loan documentation. The term of the loan will be 7-10 years and will be at a market competitive rate of interest at the time of loan commencement." [Additional Information dated February 6, 2018]

The State Board considers leasing as debt financing. The Applicant provided a signed lease agreement contingent on State Board approval. Below are the terms of the lease.

Premises	3347 Quincy Mall
Landlord	Quincy-Cullinan, LLC
Tenant	Quincy Medical Group, Inc.
Space	69,971Square Feet+/- (consisting of 36,615 square feet on the first floor and 33,356 square feet of the second floor)
Term	20 Years with 2 - 10 year options
Base Rent	$4.50 psf. for the first Lease Year with annual increases for allowance and fit out
	Increase in the Base Rent for the First Floor GLA (gross living area) and the amount of increase in the Base Rent for the Second Floor GLA (gross living area) shall be memorialized in addendums to this Lease within ten (10) days of the First Floor Possession Date and the Second Floor Possession Date, respectively.
Additional Rent	Common Area Maintenance, Insurance, Real Estate Taxes
Contingency	Lease Effective on CON Approval (page 3 -4 of Lease Agreement) 2nd floor only

The Applicant has met the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION TERMS OF DEBT FINANCING (77 ILAC 1120.140 (b))

C) Criterion 1120.140 (c) – Reasonableness of Project Costs

To demonstrate compliance with this criterion an Applicant must document that the project costs are reasonable. Note: The Applicant is not incurring the cost of the build out of the space for this project. Those construction and contingency costs are included in the FMV of the leased space which is presented below.

Preplanning Costs are $55,584 and are 1.25% of [new construction, modernization, contingencies and movable equipment $55,584÷$4,456,026 = 1.25%]. This appears reasonable when compared to the State Standard of 1.8% of new construction, modernization, contingencies and movable equipment. These costs include consulting fees related to the development of financial feasibility studies and detailed pro-forma of the project.

Architectural and Engineering Fees are $20,083. The State Board Standard for this line item is a percentage of new construction and contingencies. The space for this ASTC will be leased by the Applicant and the owner of the property will provide the build out. Note: The State Board does have a standard for these costs but it is a percentage of new construction and/or modernization and contingency costs which are not part of this project.

Consultant Fees are $352,291. These costs include strategic planning, legal consultation, certificate of need application preparation, other regulatory planning, and permit application fees. The State Board does not have a standard for these costs.

Movable Equipment Costs are $4,456,026 and are $557,004 per room [$4,456,026 ÷ 8 rooms = $557,004 per room]. This cost appears HIGH when compared to the State Board Standard of $551,212 per room. The State Board Standard is calculated based upon 2008 data ($353,802) and inflated by 3% per year.

Movable Equipment per Operating Room State Board Standard adjusted by 3% per year from 2008. Presented below are the figures for 2014 forward.				
2014	2015	2016	2017	2018
$422,458.09	$435,131.83	$448,185.79	$461,631.36	$475,480.30
2019	2020	2021	2022	2023
$489,744.71	$504,437.05	$519,570.16	$535,157.27	$551,211.99

FMV of Leased Space is $8,575,924. The State Board does not have a standard for this cost.

FMV of Leased Equipment is $944,928. The State Board does not have a standard for this cost. This costs incudes fair market value of leased ASTC clinical equipment which includes two (2) C-Arm machines and endoscopy scopes and related system support equipment.

Other Capital Costs is $750,000 and includes Epic Software system[10] build-out and training. The State Board does not have a standard for these costs.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION REASONABLENESS OF PROJECT COSTS (77 ILAC 1120.140 (c))

[10] Epic Systems is one of the largest providers of health information technology, used primarily by large U.S. hospitals and health systems to access, organize, store and share electronic medical records.

Exhibit 3

D) Criterion 1120.140 (d) – Direct Operating Costs

To demonstrate compliance with this criterion an Applicant must provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct costs means the fully allocated costs of salaries, benefits and supplies for the service.

The Direct Costs per procedure is $776.33. The State Board does not have a standard for these costs. The Applicant has met the requirements of this criterion.

Total Operating Costs	$13,113,821
Number of Procedures	16,892
Direct Costs per procedure	$776.33

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION DIRECT OPERATING COSTS (77 ILAC 1120.140 (d))

E) Criterion 1120.140 (e) - The Effect of the Project on Capital Costs

To demonstrate compliance with this criterion an Applicant must provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

The effect of the project on capital costs is $104.84. The State Board does not have a standard for these costs. The Applicant has met the requirements of this criterion.

Total Capital Costs	$19,519,058
Procedures	16,892
Weighted Average Years	14.5
Depreciation	$1,771,018
Capital Costs per procedure	$104.84

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION THE EFFECT OF THE PROJECT ON CAPITAL COSTS (77 ILAC 1120.140 (e))

Exhibit 3

both supporters of the project and opposition to the project.

We had four findings related to this project.

I would like to note, on the financial viability, our benchmarks, the ratios we compare to, were meant for an ambulatory surgical treatment center and were not developed with a medical physician practice group.

So while I believe there's a -- from the information I've seen, while I believe there is a cash problem, those ratios that are presented here were developed as an ASTC standard and not for a physician medical group.

And, finally, the reasonableness of project cost, as you can see on page 5, they exceeded our capital costs for equipment costs not in the construction contract; however, there was a CT scanner included in that cost. And if that was eliminated, which is -- that CT scanner was approximately $600,000 -- which is not part of the ASTC, they would meet that standard.

Thank you, sir.

CHAIRMAN SEWELL: Let me depart from the

CHAIRMAN SEWELL: Okay.

MR. CONSTANTINO: -- on page 34, Doctor. I'm sorry.

MEMBER GOYAL: Thank you.

MR. CONSTANTINO: The staff is supposed to assess whether or not they met our standards for an ASTC. In this case it was difficult because this is a medical physician group that's the Applicant on this application.

I've just given -- I've just -- we're negative on the criteria.

CHAIRMAN SEWELL: I understand.

Is there a presentation for the Board?

MS. BROCKMILLER: Yes. Yes.

CHAIRMAN SEWELL: I figured there was. Are you sure?

Go ahead.

MS. BROCKMILLER: Good afternoon.

My name is Carol Brockmiller, B-r-o-c-k-m-i-l-l-e-r. I am the CEO of Quincy Medical Group, and we appreciate the opportunity to present to you today.

You'll see we have quite the team here today, and they will introduce themselves as they

Attachment 35 – 1120.130 - Financial Viability

The ratio tests of financial feasibility using the required formulas show that Quincy Medical Group will not meet some of the ratios. This is due to the fact that cash is often used for discretionary distributions to its members and as an opportunity to obtain equipment or pursue facility improvements. QMG does not have the same incentives to retain cash as non-profits do, which helps not-for-profits get more favorable bond ratings. QMG does not have a bond rating.

FINANCIAL VIABILITY

	2014	2015	2016	2017	2023
Current Ratio	1.9	1.8	1.8	1.9	1.7
Net Margin Percentage	1.9%	-2.1%	-0.2%	0.4%	0.6%
Percent Debt to Total Capitalization	56%	62%	62%	64%	63%
Projected Debt Service Coverage	3.42	0.88	1.97	2.16	1.95
Days Cash on Hand	20	3	1	4	9
Cushion Ratio	3.7	0.6	0.2	0.8	1.2

Discretionary cash is spent only when all other financial objectives have been achieved. The following table of ratios shows the results if discretionary cash had been held within the organization. If even a portion of the cash had been retained on the organization's books, all financial ratios would have been achieved. In this case, all financial ratios are met, demonstrating that Quincy Medical Group has financial strength and viability.

FINANCIAL VIABILITY
(adjusted to exclude discretionary distributions to members and other discretionary uses)

	2014	2015	2016	2017	2023
Current Ratio	2.2	1.9	2.0	2.2	1.9
Net Margin Percentage	13.9%	13.2%	11.5%	11.1%	9.9%
Percent Debt to Total Capitalization	56%	62%	62%	64%	63%
Projected Debt Service Coverage	11.99	12.29	9.85	10.21	8.75
Days Cash on Hand	76	68	51	50	74
Cushion Ratio	12.3	12.0	8.1	8.8	8.0

The tables on the following pages present the worksheets showing the ratio calculations. The first page shows the calculations behind the first table above. The second page shows the calculations that support the second table above, associated with the scenario if QMG were to retain cash earnings instead of distributing them among the members or expending them on additional facility or equipment projects.

Attachment 35

18-042

Tom Marantz
CEO & Chairman of the Board
Main: 217-529-5555
Toll Free: 877-698-3278
Fax: 217-698-4570
bankwithbos.com

February 6, 2019

RECEIVED
FEB 8 2019
HEALTH FACILITIES &
SERVICES REVIEW BOARD

Ms. Courtney Avery
Administrator
Illinois Health Facilities and
Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, IL 62761

Dear Ms. Avery:

As Quincy Medical Group's primary lender and depository institution, Bank of Springfield is familiar with QMG's financial statements and financial practices. QMG is a company with solid financial leadership that is demonstrated by its consistent and long-term growth. The group has met all of its financial obligations in a timely manner and has worked closely with the bank on its long-term financial planning.

Subject to the final plans and all regulatory approvals, Bank of Springfield is committed to loaning Quincy Medical Group up to $4.93 million dollars for the purchase of medical equipment and other costs necessary for the proposed surgery center. As with every loan, this loan is subject to satisfactory due diligence to be performed by Bank of Springfield with the cooperation of QMG and agreement on loan documentation.

The term of the loan will be 7-10 years and will be at a market competitive rate of interest at the time of loan commencement.

We look forward to being a part of this important project for the Quincy community.

Sincerely,

Tom Marantz

Tom Marantz
Chairman of the Board and CEO
Bank of Springfield
3400 West Wabash
Springfield, IL 62711

45X9319 2/6/2019

Bank Smarter.

Exhibit 7

QUINCY MEDICAL GROUP

March 28, 2019

Via Federal Express – Overnight Delivery
Members, Illinois Health Facilities and Services Review Board
Ms. Courtney Avery
Mr. Michael Constantino
525 West Jefferson Street, 2nd floor
Springfield, Illinois 62761

Re: Quincy Medical Group Surgery Center, Project No. 18-042
Submission of Additional Information
History of Collaboration and Partnership with Blessing

Dear Board Members, Ms. Avery, and Mr. Constantino:

During the March 5, 2019 Board Meeting ("March 5 Meeting"), several Board members commented regarding the adversarial nature of statements made during the public participation portion of the meeting. We believe these adversarial statements conveyed an inaccurate impression to the Board that Quincy Medical Group ("QMG") and Blessing Health System ("Blessing") have a history of not working together and not being able to set aside disagreements or come together for the betterment of patients. This is not the case.

Over the course of more than twenty years, QMG has established a pattern and commitment of working with Blessing to improve the delivery of quality healthcare to our patients, evidenced through the following:

- QMG physicians provide direct patient care in Blessing's hospital, cover call for Blessing's emergency department, and serve as the hospital's major admitting group (responsible historically for approximately 70% of Blessing's admissions);
- QMG physicians voluntarily serve on multiple Blessing committees, including its Medical Executive Committee, Credentialing Committee, Quality Review Committee, and Peer Review Committee;
- QMG physicians contribute to Blessing's achievements and accomplishments in various areas, including, but not limited to, trauma care;[1]

[1] See enclosed **Exhibit 1**, February 6, 2019 correspondence acknowledging the collegial partnership between QMG and Blessing in relation to trauma services provided Blessing Hospital, leading to Blessing's recognition of excellence in trauma care in many areas ,and subsequent February 21, 2019 Correspondence regarding IDPH's re-designation of Blessing Hospital as a Level II Trauma Center.

- Blessing's last 5 Chiefs of Staff, many of Blessing's department chairs, Blessing's current Chief of Surgery, Blessing's Medical Director of Trauma, Blessing's Medical Director of the ICU, and Blessing's Medical Director of the Observation Decision Unit ("ODU") are all QMG physicians;
- QMG supports many of Blessing's administrative endeavors, including cooperating with the many changes within electronic medical record ("EMR") upgrades, such as computerized physician order entry ("CPOE"); changes in the structure of nursing care management; communication enhancements such as the Hub and OneCall or use of Voalte texting; and endeavors to capture patient-advanced directives upon admission; and
- QMG partners with Blessing in order to provide numerous clinical service programs at Blessing Hospital, including Blessing's intensivist program;[2] full-time physician coverage of Blessing's ODU; and covered services agreements for orthopedic trauma, surgical trauma, and neurosurgery coverage.

There have been many important collegial and collaborative relationships between QMG physicians and Blessing over the years. At times, we have come together. At other times, we have necessarily gone our separate ways and pursued projects independently.[3] For the numerous reasons previously articulated to the Board and set forth in our submission of additional information, our proposed project is one such project that should be pursued independently of Blessing. To be clear, QMG has no intention of abandoning Blessing's hospital or surgery center, and no intention of changing the current relationship with Blessing and our responsibilities simply by virtue of the establishment of a new surgery center.

Since our affiliation with UnityPoint in 2012, we believe Blessing has viewed us as a competitor, and, as a result, has undertaken to build its own physician enterprise (Blessing Physician

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[2] QMG has contracted with Blessing since 2012 to provide intensivist services at Blessing. The parties are currently engaged in discussions in relation to a newly proposed new intensivist agreement. See enclosed **Exhibit 2,** March 28, 2019 Correspondence from QMG to Blessing regarding proposed intensivist agreement, and QMG's proposed modifications to include additional terms regarding quality improvement and cost reduction.

[3] As is expected, there have also been times when QMG and Blessing have explored cooperative ventures that were unsuccessful or non-productive, including, but not limited to, the following:

- In 1998, Blessing rejected an opportunity to collaborate with QMG on a project called Joint Operating Co ("JOCO"), the purpose of which was to build a hospital/physician relationship that would allow QMG to work in a coordinated manner on various issues, including evaluation and creation of an ASTC. QMG worked with Blessing on the project for over a year. In 1999, QMG voted overwhelmingly to proceed with JOCO. Blessing, however, suddenly halted discussions.
- In 2006, QMG proposed various joint ventures to Blessing's then-CEO, including those related to a cardiac catheterization lab, diagnostic center, and vascular center. QMG also proposed to transition Blessing's existing surgery center to a joint venture with 50/50 ownership. Blessing rejected all proposals.
- Since 2006, QMG and Blessing have continued discussions regarding alignment on various healthcare issues – many of which, unfortunately, have been non-productive to date.

Services or BPS), which competes directly with QMG in almost every service line offered by QMG. Blessing is in the process of constructing its fourth physician building and recently purchased Hannibal Clinic, a physician group in Missouri only 20 miles south of Quincy. The merger placed all Hannibal Clinic physical assets (including an ambulatory surgery center), physicians, and staff under the Blessing corporate structure while retaining the Hannibal Clinic name. Blessing also controls all hospital inpatient beds and operating room facilities. Since Blessing aggressively competes in physician business lines and offers insurance plans that advantage Blessing service lines, the need for collaboration with others not controlled by Blessing (like QMG) seems to have greatly diminished. When Blessing pursued independent projects, including recent CON projects – one of which was to construct a medical office building to house its own recruited physicians, QMG did not oppose those projects. We have always welcomed competition and believe it makes us stronger, more innovative, more efficient, and more cost-effective.

QMG's focus is and always has been on our patients and improving how we deliver healthcare. A strong local hospital delivering quality healthcare is vitally important to QMG and the community, and QMG is committed to Blessing's ongoing success. However, our commitment to Blessing does not mean that we cannot or should not pursue our own initiatives – especially when they serve our patients and the community.

If you have any questions regarding QMG's history of collaboration with Blessing, please feel free to contact us.

Sincerely,

Richard F. Schlepphorst, M.D.

Richard Schlepphorst, MD
Chief Medical Officer
Quincy Medical Group

Carol Brockmiller

Carol Brockmiller, CMPE
Chief Executive Officer
Quincy Medical Group

Enclosures – Exhibits 1-2

BLESSING HOSPITAL

A member of the Blessing Health System

February 6, 2019

Dr. Christian Zwick
Quincy Medical Group
1025 Maine Street
Quincy, IL 62301

Michael Richard
3415 Dee Drive
Quincy, IL 62305

Dear Dr. Zwick and Michael,

On behalf of the Trauma Service Committee, we would like to thank you for your dedication to the trauma patients of our region.

Over the years, your efforts have helped prepare the physicians, hospital, and staff to stand in "readiness" for the next unexpected tragic event to occur in someone's life and improve their chances to "overcome" their injuries.

As the collegial partnership between you two, you have lead the committee and hospital toward excellence in trauma care in many areas, such as: dedicated trauma surgeons, current certifications in ATLS for surgeons and emergency physicians, the start of the TNS Course, Massive Transfusion Protocol, anti-coagulant therapy and reversal guidelines and equipment in the ER for trauma.

The site survey was not a declaration of your efforts as much as a confirmation of your efforts. At times, we know it would be easier to step down and declare it is time to "pass the torch" to someone else. So we thank you for your commitment and resilience over the years.

We are all truly blessed by having you serve our community!

Sincerely,

Maureen A. Kahn
President/CEO

Elliot

Elliot H. Kuida
Executive Vice President/COO

/bap

IDPH
ILLINOIS DEPARTMENT OF PUBLIC HEALTH

422 South Fifth Street, Fourth Floor • Springfield, Illinois 62701-1824 • www.dph.illinois.gov

February 21, 2019

Maureen Kahn
President/CEO
Blessing Health System
Broadway at 11th St.
Quincy, IL 62305

Dear Ms. Kahn:

The contribution that Blessing Hospital has made to the Illinois Trauma System over the last several years is recognized and appreciated.

It is our pleasure to inform you that Blessing Hospital, Quincy, IL has been re-designated as a Level II Trauma Center for Emergency Medical Systems Region 3 in the State of Illinois until January 30, 2021.

This letter shall also serve as verification that your facility has remained in good standing as an Illinois Designated Level II Trauma Center recognized by the Department.

If you have any questions, or need additional assistance, please contact my office at 217-785-2087 or by email at joseph.albanese@illinois.gov.

Sincerely,

Joseph Albanese

Joe Albanese, RN, BSN EMT-P
Trauma Systems Coordinator

C: Dr. Christian Zwick, DO – Trauma Medical Director
Dr. Scott Hough, MD – Emergency Dept. Medical Director
Michael Richard, RN – Trauma Coordinator
Brian Kieninger, RN – Regional EMS Coordinator
File

Exhibit 1

IDPH
ILLINOIS DEPARTMENT OF PUBLIC HEALTH

422 South Fifth Street, Fourth Floor • Springfield, Illinois 62701-1824 • www.dph.illinois.gov

February 21, 2019

Maureen Kahn
President/CEO
Blessing Health System
Broadway at 11th St.
Quincy, IL 62305

Dear Ms. Kahn:

This letter is in regards to the Level II Trauma Program review conducted by the Department at your facility on January 30, 2019. The survey was headed by Dr. James Doherty, M.D. along with Department staff.

The Department appreciates the opportunity to visit Blessing Hospital and the Trauma Program participants. A brief outline of the program review is as follows:

Strengths of the Program:

- Detailed and high level Performance Improvement (PI) process with quality follow through
- EMS System and ED physician participation in trauma case reviews
- Robust participation at Trauma Committee meetings
- Surgeons and ED physicians maintain ATLS verification
- Collaboration between surgeons, ED physicians and subspecialty services related to trauma care
- Low transfer out rate
- Trauma services resource for other area hospitals
- Trauma Medical Directors ongoing participation at regional meetings

Opportunity for Improvement:

- There all always opportunities to improve trauma care. The site visit at Blessing Hospital did not reveal any non-compliance or unacceptable practice for the trauma program. Continued vigilance is encouraged.

The re-designation document for Blessing Hospital, Quincy IL as an Illinois Designated Level II Trauma Center is enclosed.

Exhibit 1

If you have any questions, or need additional assistance, please contact my office at 217-785-2087 or by email at joseph.albanese@illinois.gov.

Sincerely,

Joe Albanese, RN, BSN EMT-P
Trauma Systems Coordinator

C: Dr. Christian Zwick, DO – Trauma Medical Director
Dr. Scott Hough, MD – Emergency Dept. Medical Director
Michael Richard, RN – Trauma Coordinator
Brian Kleninger, RN – Regional EMS Coordinator
File

Exhibit 1

QUINCY MEDICAL GROUP

March 28, 2019

SENT BY E-MAIL AND HAND DELIVERY

Maureen A. Kahn, President/CEO
Elliot Kuida, Chief Operating Officer
Blessing Health System
P.O. Box 7005
Quincy, IL 62305

Dear Ms. Kahn and Mr. Kuida:

We are in receipt of Blessing's proposed Intensivist Agreement ("ICU Agreement"), sent by e-mail correspondence on March 15, 2019. We appreciate Blessing's interest in entering into a new contractual arrangement with QMG in relation to the provision of intensivist services at Blessing Hospital. We understand you would like to set up a time to meet and discuss the proposed agreement. Of the dates proposed, Dr. Schlepphorst and I are available on Friday, April 5th from 8-9:00 a.m.

We reviewed the proposed ICU Agreement, and, in addition to other modifications that we plan to discuss and further explore during the upcoming meeting, QMG proposes the following modifications and/or additions which focus on improving quality of care and reducing costs and expenses:

- Inclusion of an additional duty or requirement in relation to meeting to discuss and improve quality metrics and expense reduction;
- Adjustment of provider compensation to reflect Medical Group Management Association ("MGMA") standards; and
- Inclusion of a quality bonus or other incentive based on compliance or adherence to LeapFrog and other applicable and related quality standards.

As you know, the current Intensivist Agreement provides that neither Blessing nor QMG will "solicit the services of, hire, employ, procure on its behalf or for another, or contract with, whether as an employee, consultant, agent, independent contractor or otherwise, any Intensivist Provider or managerial employee employed by or under a service or consultancy contract with the other party or its Affiliates," without the express written consent of the other. See Section 10.4. It appears to QMG that Blessing has been soliciting QMG Intensivist Providers and Allied Health Professionals without QMG's consent, in direct violation of Section 10.4 of the current Intensivist Agreement. QMG reminds Blessing that Sections 6.2(c)(v), 10.4, and 10.6 of the current agreement remain in effect.

Exhibit 2

We look forward to meeting and discussing the proposed ICU Agreement.

Sincerely,

Carol Brockmiller

Carol Brockmiller, CMPE
Chief Executive Officer
Quincy Medical Group

Richard F. Schlepphorst, M.D.

Richard Schlepphorst, MD
Chief Medical Officer
Quincy Medical Group

Exhibit 2

QUINCY MEDICAL GROUP

March 28, 2019

Via Federal Express – Overnight Delivery
Members, Illinois Health Facilities and Services Review Board
Ms. Courtney R. Avery
Mr. Michael Constantino
525 West Jefferson Street, Second floor
Springfield, Illinois 62761

Re: Project 18-042, Quincy Medical Group Surgery Center
Additional Information Subsequent to Intent to Deny
Compliance with Reasonableness of Project Costs Criterion

Dear Board Members, Ms. Avery, and Mr. Constantino:

The purpose of this letter is to provide additional information demonstrating Quincy Medical Group's compliance with the Reasonableness of Project Costs Criterion (77 Ill. Adm. Code 1120.140(c)).

As noted in QMG's letter providing additional information regarding QMG's financial viability and strength, while the Board's Staff initially issued a negative finding in relation to the reasonableness of project costs criterion, QMG believes that the project does, in fact, comply with the reasonableness of project costs criterion.

The following facts are relevant to the compliance analysis:

- The CT scanner noted in QMG's permit application will be a new machine. The existing CT scanner, located at QMG's main office at 1025 Maine Street in Quincy, will not be relocated to the new facility.
- The CT scanner is not part of the proposed ASTC space.
- The CT scanner is not a fixed c-arm.
- The CT scanner will be fixed and not moveable.
- CT equipment, including the CT machine, installation, and room supplies, totals $666,375. (**Exhibit 1,** Attachment 7, QMG Permit Application.)
- While the CT scanner and related equipment were listed in QMG's permit application under moveable equipment, the CT scanner and related equipment are more appropriately categorized as other capital costs as they are not moveable.
- If the cost of the CT scanner and/or CT equipment is removed from the calculation of equipment cost per surgery room, the project satisfies the reasonableness of project cost criterion as the total amount is below the State standard for equipment costs per operating room. (**Exhibit 2,** p. 300 of Draft Transcript.)

With this additional information, QMG believes the project complies with the State standard under the Reasonableness of Project Costs criterion.

Thank you for your consideration of this additional information. Please feel free to contact me with any questions.

Sincerely,

Patricia A. Williamson

Patty Williamson
Chief Financial Officer
Quincy Medical Group
217-222-6550

cc: Rebecca Lindstrom, Polsinelli
Ralph Weber, CON Consultant

PROJECT COSTS AND SOURCES OF FUNDS

	Clinical	Non-Clinical	Total
Use of Funds			
Pre-Planning Costs	55,584	13,896	69,840
Site Survey and Soil Investigation*			-
Site Preparation*			-
Off-Site Work*			-
Modernization contracts*			-
New Construction contracts*			-
Contingencies*			-
A/E fees*	20,083	5,021	25,104
Consultant fees	352,291	88,073	440,364
Movable Equipment	4,456,026	394,716	4,850,742
Bond Issuance Expense			-
Net Interest Expense during const*			-
FMV Leased space or equipment			-
Leased Space	8,575,924	3,302,516	11,878,440
Leased Equipment	944,928		944,928
Other capital costs - IT	750,000	335,000	1,085,000
Other capital costs - Artwork		125,000	125,000
Other capital costs - Signage		100,000	100,000
Acquisition of Building			-
Total Uses of Funds	15,154,836	4,364,222	19,519,058
			-
Source of Funds			-
Cash and Securities	1,469,163	297,933	1,767,096
Pledges			-
Gifts and Bequests			-
Cond Issues (project related)			-
Mortgages	4,164,820	763,773	4,928,593
Leases (fair market value)	9,520,852	3,302,516	12,823,368
Governmental Appropriations			
Grants			
Other Funds and Sources			
Total Sources of Funds	15,154,836	4,364,222	19,519,058

Note: Site Survey and Soil Investigation, Site Preparation, Off-Site Work, New Construction Contracts, Contingencies, and the bulk of A/E fees and Net Interest Expense During Construction are included in the Fair Market Value of the lease of space.

Attachment 7 – Itemization of Project Costs and Sources of Funds

The table on the preceding page lists all costs associated with the project.

Itemization of each line item noted in the table is provided below:

Preplanning Costs
$69,480

Costs include consulting fees related to the development of financial feasibility studies and detailed pro forma of the project.

Architect/Engineering Fees
$25,104

This work includes consultation services, preliminary building analysis, program development and preliminary floor layouts with adjacencies. Schematic design, design development, and construction documents will be the responsibility of the building owner; costs of these A/E services will be incorporated into the lease payments.

Consultant Fees
$440,364

Costs include strategic planning, legal consultation, certificate of need application preparation, other regulatory planning, and permit application fees.

Moveable Equipment
$4,850,742

Clinical Equipment	**$4,456,026**
ASTC Equipment	$2,542,508

ASTC Moveable Clinical Equipment includes anesthesia machines, surgical lights, patient monitors, instrument sterilizers, stretchers, surgical tables, video systems, glaucoma laser system and phacoemulsifier for ophthalmology, and instruments for each surgical specialty that the ASTC serves. Additional surgical equipment is to be obtained by lease, and is described below. The FMV of this leased equipment for the 7 surgical and procedure rooms totals $944,928. Consequently, the total value of equipment for the 7 rooms is $3,487,436. The 8th room is to function as a catheterization service; its equipment costs are separated from the surgical room costs, as reported below.

Cath Equipment	$1,247,143

Cath Moveable Clinical Equipment includes a fixed C-arm, hemo system, cardiac ultrasound, anesthesia machine, patient monitors, stretchers, surgical light source, procedure table and table drapery radiation shield.

CT Equipment $666,375

CT Moveable Equipment includes a CT machine, installation, and room supplies.

Non-Clinical Equipment $394,716

Moveable Non-Clinical Equipment includes chairs, tables, desks, staff break room furniture and appliances, copiers, office equipment, and shelving.

FMV of Leased Equipment
$944,928

This equates to the fair market value of leased ASTC clinical equipment which includes two (2) C-Arm machines and endoscopy scopes and related system support equipment. This amount added to the cost of the Moveable ASTC Clinical Equipment is $3,487,436.

FMV of Leased Space
$11,878,440

This equates to the fair market value of the lease for space for the project.

Other Capital Costs
$1,085,000

Clinical IT Costs $750,000

This includes Epic software system build and training.

Non-Clinical IT Costs $335,000

These costs include IT network and desktop hardware and installation and communications system and installation.

Other Capital Costs – Artwork $125,000

Cost of artwork for the new facility.

Other Capital Costs – Signage $100,000

Cost of signage for the new facility.

both supporters of the project and opposition to the project.

We had four findings related to this project.

I would like to note, on the financial viability, our benchmarks, the ratios we compare to, were meant for an ambulatory surgical treatment center and were not developed with a medical physician practice group.

So while I believe there's a -- from the information I've seen, while I believe there is a cash problem, those ratios that are presented here were developed as an ASTC standard and not for a physician medical group.

And, finally, the reasonableness of project cost, as you can see on page 5, they exceeded our capital costs for equipment costs not in the construction contract; however, there was a CT scanner included in that cost. And if that was eliminated, which is -- that CT scanner was approximately $600,000 -- which is not part of the ASTC, they would meet that standard.

Thank you, sir.

CHAIRMAN SEWELL: Let me depart from the

Exhibit 2

Quincy Medical Group

March 28, 2019

Via Federal Express – Overnight Delivery
Members, Illinois Health Facilities and Services Review Board
Ms. Courtney Avery
Mr. Michael Constantino
525 West Jefferson Street, 2nd floor
Springfield, Illinois 62761

Re: Quincy Medical Group Surgery Center, Project No. 18-042
Submission of Additional Information
Collaborative Efforts With Blessing Post Intent to Deny

Dear Board Members, Ms. Avery, and Mr. Constantino:

This letter addresses comments made by several Board members during the March 5, 2019 Board Meeting ("March 5 Meeting"), suggesting that QMG and Blessing take additional measures and/or make additional efforts to resolve tensions in relation to the proposed surgery center. This letter also addresses the suggestion made by one Board member that QMG seek insight and/or assistance from a leading community member or organization in the Quincy area in this regard.

In an effort to fully address the Board's comments, following receipt of the Intent to Deny, QMG engaged in numerous discussions with QMG patients and area residents, local employers and organizations, and Blessing representatives. The QMG executive team and QMG Board also engaged in numerous internal meetings.

The following summary is provided as documentation of many of QMG's cooperative and collaborative efforts pursued subsequent to the Intent to Deny. This letter is not exhaustive of all efforts, and additional information will be provided to the Board at the upcoming Board meeting. While we will continue to further pursue many of the collaborative efforts set forth below, these efforts do not impact - and, in fact, reinforce - our decision to continue pursuing our project. Our project is needed, wanted, and in the best interest of the community.

A. Further Exploration of Joint Venture with Blessing.

While the Board did not instruct or suggest that QMG make a joint venture proposal to Blessing in relation to the existing or proposed surgery center, in an effort to fully explore all collaborative and cooperative options, QMG has engaged in a thorough review of potential joint venture options in relation to the proposed, and existing, surgery center. As set forth below, however, QMG does not believe a joint venture with Blessing is a viable option or solution for either the existing or proposed surgery center, nor is it in the best interest of the community.

As explained in prior submissions to the Board, QMG carefully considered a joint venture with Blessing for the proposed surgery center prior to filing its application. (**Exhibit 1**, p. 6-7, February 8, 2019 Correspondence from QMG to Board.) No formal proposal was made to Blessing and the alternative not pursued further for numerous reasons, including, among others, that QMG understood Blessing would not be interested in a joint venture unless it (Blessing) was the majority owner and because, at that time, QMG understood that Blessing was not interested in a joint venture for the surgery center unless it could bill its services at hospital outpatient billing rates. After QMG's application was filed, a discussion took place with Blessing regarding a potential joint venture for the proposed surgery center at the proposed location, and Blessing confirmed it had no interest in the joint venture.

Following the Intent to Deny, QMG engaged legal counsel to further explore potential joint venture options for the proposed surgery center. The conclusion reached was that a joint venture with Blessing for the proposed surgery center was not a viable option from both a business and legal perspective for many reasons - including, but not limited to, fraud and abuse implications and risks and anti-trust concerns.

A joint venture in the existing surgery center is also not a viable option or solution. First and foremost, it does not solve the numerous reasons articulated by QMG regarding the need for a second surgery center in Adams County. Additionally, while Blessing submitted an 11th hour joint venture proposal for the existing surgery center in February 2019, the proposal - which was submitted to the Board and media before QMG's Board of Directors had an opportunity to meet and thoroughly discuss the proposal - offered no opportunity for QMG group ownership or operational oversight and required that QMG withdraw its application and for its physicians to agree not to compete with Blessing. For those reasons, and a number of others articulated by QMG in a prior submission to the Board, the proposal was a non-starter and promptly rejected by QMG's Board of Directors. (**Exhibit 2**, February 13, 2019 Correspondence from QMG to the Board.)

Further, as noted below, local employers and organizations have strongly voiced their opposition and/or reservations regarding QMG entering into any cooperative venture with Blessing in relation to the proposed surgery center. See Section B below.

B. Community Feedback and Perspective.

Following the March 5 Meeting, QMG was inundated with feedback and input from the community – from patients, area residents, and local employers and organizations. Candidly, what QMG heard was frustration and disappointment in relation to the project receiving an Intent to Deny. Numerous community members strongly encouraged QMG to continue pursuing the project, despite continued opposition from Blessing.

Without QMG's advance knowledge, an unsolicited letter of support from a resident of the area and noted patient of Blessing was also submitted to the Board following the March 5 Meeting, strongly urging the Board to approve the project on behalf of current and potential patients in the Quincy area. (**Exhibit 3**, March 14, 2019 Letter of Support from Carol Mohr.) This letter of support is merely one example of the many similar conversations that have taken place with patients and area residents following the March 5 Meeting.

We have also engaged in numerous discussions with leading community members and organizations, and they have expressed strong reservations regarding QMG pursuing any cooperative venture with Blessing that would result in co-ownership of a surgery center, as they, like QMG, believe strongly that patient choice, competition, competitive pricing, and cost reduction are good for both patients and the community. Their reaction to the Intent to Deny and perspective on a joint venture with Blessing, along with other cooperative or collaborative efforts, is set forth in a collective letter signed in further support of the proposed project. (**Exhibit 4,** Collective Letter from Community Leaders and Organizations.)

The perspective of QMG and the community regarding the need for provider choice and competition in the Quincy area is not based on speculation – it is based on facts. As articulated by Gerald Frye, who testified before the Board during the March 5 Meeting, and as set forth in detail in his enclosed report, a competing surgery center is greatly needed in the Quincy area. (**Exhibit 5**, Report, Measuring the Potential Impact of a Competing Surgery Center in Quincy, IL.) For too long, Blessing has been allowed to dominate the healthcare market in the Quincy area – leading to higher prices for patients and employers than in other competitive markets. The following are a few of the many compelling statements from Mr. Frye's report:

- Blessing has an 80%-market share, more than double the average market share of similar-size hospitals in western Illinois.
- The proposed surgery center will help constrain costs by injecting competition into the local healthcare market, giving healthcare purchasers leverage in negotiating prices.
- Market competition is often the best way to motivate providers to increase efficiency, improve quality, and ensure that healthcare prices reflect the value of services provided to consumers.
- Blessing Hospital has a dominant market share, which has allowed it to realize significantly above-average growth in patient revenue, as well as above-average margins. This has translated to higher insurance costs, which is a financial burden for employers, employees and residents.

- Allowing limited competition – in the form of a second surgery center in Adams County – would give health care purchasers leverage to secure lower rates and would ensure that future growth in outpatient procedures will be performed in an ambulatory surgery center instead of a higher-cost outpatient setting.

C. Discussions with Blessing and Alignment Proposal.

Shortly following the March 5 Meeting, the Chairman of QMG's Board of Directors reached out to the Chairman of Blessing Corporate Services' Board of Trustees to discuss the March 5 Meeting and whether Blessing would be interested in meeting to discuss collaborative and alignment opportunities. A letter memorializing that discussion is enclosed. (**Exhibit 6,** March 20, 2019 Correspondence from Dr. Todd Petty to Mr. Tim Koontz and Comprehensive Proposal.)

QMG expressed its continued agreement to meet with Blessing and engage in good faith discussions regarding potential collaborative and alignment opportunities. As noted in the March 20, 2019 letter, QMG submitted a comprehensive proposal regarding various alignment opportunities for Blessing's consideration. The proposed opportunities for alignment include shared governance and clinical alignment through shared service lines, with a strong focus on improving patient safety and quality. A meeting on the alignment proposal is currently scheduled for April 17, 2019.

QMG and Blessing are also continuing discussions to address QMG's stated concerns with the existing surgery center – including issues regarding block scheduling and extended hours. The issues were recently discussed at a March 18, 2019 Medical Consulting Meeting, and, according to correspondence received by QMG yesterday, on March 27, 2019, Blessing and Quincy Anesthesia Associates have decided to extend hours at Blessing's surgery center beginning April 1, 2019. (**Exhibit 7,** March 27, 2019 Correspondence from Blessing to QMG regarding surgery center extended hours.) As QMG expressed in its response to Blessing's letter, QMG is appreciative of Blessing's recent efforts to address a few of the operational limitations QMG expressed in its CON application and is happy to assist and provide input on implementation of Blessing's extended hours initiative. (**Exhibit 8,** March 28, 2019 Correspondence from QMG to Blessing regarding response to extended hours initiative.) QMG's decision to pursue a new surgery center, however, is multi-faceted and not based on operational limitations alone, although those limitations certainly played a role in its decision. As such, Blessing's recent initiative to offer extended hours at the existing surgery center does not impact QMG's decision to continue pursuing the project.

As it has done for years, QMG will continue to engage in good faith discussions with Blessing regarding alignment and collaborative opportunities focused on improving patient safety, quality of care, and reduction of costs and expenses. Those alignment and collaborative opportunities, however, do not impact QMG's proposal for a new surgery center in Adams

County. A second surgery center in Adams County is needed and in the best interest of the community.

Thank you for your continued assistance.

Sincerely,

Carol Brockmiller

Carol Brockmiller, CMPE
Chief Executive Officer
Quincy Medical Group

Enclosures – Exhibits 1-8

February 8, 2019

Tracey Klein
(312) 873-3613
(312) 803-2183 Direct Fax
tklein@polsinelli.com

RECEIVED
FEB 13 2019
HEALTH FACILITIES & SERVICES REVIEW BOARD

HFSRB Members
Ms. Courtney Avery
Mr. Michael Constantino
525 West Jefferson Street, 2nd floor
Springfield, IL 62761

Re: Quincy Medical Group Surgery Center, Project 18-042
Response to Public Hearing Statements

Dear Members of the HFSRB, Ms. Avery, and Mr. Constantino:

This letter is written on behalf of our client (Quincy Medical Group) and submitted in response to statements made at the January 24 Public Hearing on project 18-042, Quincy Medical Group Surgery Center, that suggest that QMG's project does not meet applicable review criteria. This letter addresses the following topics:

I. QMG's project substantially conforms with all applicable HFSRB review criteria; and

II. Blessing's numerous and revised data submissions are highly suspect, demonstrate either a failure to properly maintain and file accurate surgical utilization reports on Blessing's behalf or raise concerns regarding Blessing's motive, especially as the reported data has the potential to greatly impact the validity of the HFSRB review process.

I. QMG'S PROJECT SUBSTANTIALLY CONFORMS WITH APPLICABLE REVIEW CRITERIA.

QMG carefully planned the proposed project to be in conformance with all applicable HFSRB review criteria and to comply with the purposes of the Illinois Health Facilities Planning Act (the "Act"). The purpose of the Act is to establish a procedure that promotes the orderly and economic development of health care facilities, avoiding unnecessary duplication of such facilities and promoting planning for and development of facilities needed for comprehensive health care, especially in areas with unmet needs. 20 ILCS 3960/2. The HFSRB is required to approve and authorize the issuance of a permit if it finds, among other conditions, that the project substantially conforms to all applicable HFSRB standards and review criteria. QMG's project substantially conforms in all respects.

As the HFSRB is well aware, a project need not satisfy each and every applicable review criterion to justify approval. 77 Ill. Adm. Code 1130.660(a) ("failure of a project to meet one or more of the applicable review criteria shall not prohibit the issuance of a permit"); *Provena Health v. Illinois Health*

Facilities Planning Bd., 382 Ill. App. 3d 34 (2008). In fact, there is no definitive number of criteria that must be satisfied to demonstrate substantial conformance with the HFSRB's regulations or to justify a project's approval. *Provena*, 382 Ill. App. 3d at 45 (noting that substantial conformity does not mean complete compliance). Rather, it is the responsibility of the HFSRB to evaluate each project as a whole, taking into consideration criteria with which a project does and does not conform, and to balance those findings with the overall need for the project - while exercising its discretion and judgment - in deciding whether to approve a project.

In an effort to assist the HFSRB with its review and answer questions raised at the Public Hearing, we provide the following analysis as to how the project conforms with several review criteria.

A. Service Accessibility – 77 Ill. Adm. Code 1110.235(c)(6).

To satisfy the Service Accessibility criterion, which assesses whether the proposed services are necessary to improve access for residents of the GSA, a project must meet at least one of the four enumerated sub-criteria:

1) There are no other IDPH-licensed ASTCs in the GSA of the proposed project;

2) Existing ASTC and hospital services are utilized at or above the State's utilization standard;

3) ASTC services or specific types of procedures that are components of an ASTC are not currently available in the GSA, or existing underutilized services in the GSA have restrictive admission policies; or

4) The project is a cooperative venture with an existing hospital that currently provides outpatient services to the population of the subject GSA.

The proposed project satisfies three of the four Service Accessibility sub-criteria.

1. Lack of ASTC Services in GSA by 2021/2022.

Currently, there is only one other ASTC in the GSA of the proposed project location: Blessing Hospital's ASTC. In September 2018, we understand from a contemporaneous communication received from our client, Blessing's leadership informed QMG that the useful life of the existing ASTC in its current location without more space is only three more years. We understand that Blessing's leadership further informed QMG at that time that it would be performing a full facilities plan in the near future to determine whether it would seek early termination of its lease for the existing ASTC space. The proposed surgery center will open by 2021/2022 – right around the time Blessing expects that the useful life of the surgery center will have expired. Assuming this information correctly assesses Blessing's plan, the existing surgery center is likely to cease to exist by 2021, rendering the GSA devoid of an IDPH-licensed ASTC. QMG's proposed surgery center will fill that void. The first sub-criterion is satisfied.

2. Existing ASTC and Hospital Services Utilized At or Above State Utilization Standard.

The second Service Accessibility sub-criterion requires that existing ASTC and hospital services be at or above the State's utilization standard. Blessing's data supports QMG's analysis that Blessing surgery rooms will meet the State's utilization standard in 2021 when the proposed surgery center opens.[1]

QMG's permit application was filed in October 2018 and incorporated Blessing's reported utilization data for 2016 and prior years. 2017 reported data was not available at the time the application was filed. In early November 2018, the State published 2017 utilization data for hospitals and ASTCs. The published data had been submitted by hospitals and ASTCs to the State in March 2018. Blessing's 2017 data (submitted to the State prior to QMG's filing of the application but not published prior to the application submission) showed a dramatic increase in outpatient surgery when compared to prior years' data starting in 2013. This growth in total surgical hours from 2013 to 2017, for Blessing Hospital's OR and ASTC, when used to project future volumes, results in full utilization of Blessing's rooms in 2021, the year QMG's proposed ASTC will open.

In early December 2018, while QMG was in the process of preparing revised application pages to reflect Blessing's reported increased outpatient surgery hours - and, therefore, increased utilization - Blessing suddenly submitted new data changing its numbers for 2016 and 2017. The submission included a significant reduction of 4,812 hours in Blessing's ASTC ORs from the data Blessing previously reported in March 2018 (before QMG's application had been filed).

In January 2019, Blessing again submitted new surgical numbers for 2014 – 2017, noting that it was "correcting" its previous submissions and attesting it had previously misreported the data. (Blessing January 23, 2019 Correspondence, attached as Exhibit 1.) The new data has not yet been approved by the HFSRB.

The table below demonstrates Blessing's numerous data submissions, specifically in relation to Blessing's reported outpatient and inpatient surgery hours for its hospital and ASTC. The

[1] This letter presents and analyzes available public data on surgical services in the Blessing Hospital ORs and procedure rooms, and the Blessing ASTC ORs and procedure rooms, for 2013 through 2017. The data used is Blessing's own reported data, provided by Blessing Hospital to the State in its Annual Hospital Questionnaires and Ambulatory Surgical Treatment Center Questionnaires and recorded in the HFSRB profiles. With respect to any data referenced in this communication, we rely on QMG's CON consultant who analyzed the numbers.

Exhibit 1

differences in reported hours are significant, with tremendous increases in hours reported by Blessing in March 2018 (before QMG filed its application) and published in November 2018, and drastic reductions in hours reported by Blessing after QMG filed its application.

Blessing Hospital and Blessing ASTC Reported Total Outpatient and Inpatient Surgery Hours

	2013	2014	2015	2016	2017
Data at Application Filing[2]	15,069	16,706	17,135	18,378	19,172
Data Submitted March 2018/Published Nov. 2018[3]	15,069	16,706	17,135	16,275	23,832
Data Submitted Dec. 2018[4]	15,069	16,706	17,135	16,464	19,020
Data Submitted Jan. 2019[5]	15,069	14,175	14,786	16,376	18,957

Blessing Hospital and Blessing ASTC Projected Total Outpatient and Inpatient Surgery Hours[6]

	2018	2019	2020	2021
Data at Application Filing	20,476	21,868	23,355	24,943
Data Submitted March 2018/Published Nov. 2018	27,288	31,244	35,775	40,962
Data Submitted Dec. 2018	20,275	21,613	23,040	24,560
Data Submitted Jan. 2019	20,189	21,502	22,899	24,388

An opponent to a project under review by the HFSRB, especially an opponent who controls data used by the HFSRB to assess whether a project conforms with applicable review criteria, should not be allowed to submit subsequent "corrections" to relevant data or to recreate its data during the HFSRB's review process. Allowing such conduct to occur, especially where the opponent and submitter of data provides little to no justification for the subsequent submission, has the potential to significantly impact the HFSRB's review process and ultimate approval of a project.

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[2] QMG used Blessing's reported public data on surgical services in the Blessing Hospital's ORs and procedure rooms and Blessing's ASTC ORs and procedure rooms for 2013 – 2016 at the time it prepared and filed its application. Blessing's 2017 reported data was not available at the time the application was filed in October 2018. As a result, 2017-2021 hours were estimated through a conservative analysis outlined in QMG's application.
[3] In March 2018, Blessing submitted 2017 data, along with corrected 2016 data, to the HFSRB. That data was published by the HFSRB in November 2018.
[4] Blessing submitted and received HFSRB approval of new data in December 2018.
[5] In January 2019, Blessing submitted new data to the HFSRB. That data has not yet been approved by the HFSRB.
[6] Blessing's projected hours for 2018-2021 were calculated using historic utilization data submitted by Blessing and the following historic annual average rates of growth: 6.8% analyzing data available at the time the application was filed, 14.5% analyzing data submitted in March 2018, 6.6% analyzing data submitted in December 2018, and 6.5% analyzing data submitted in January 2019.

Even if Blessing's most recently reported and HFSRB accepted data is used, however, the analysis reveals that by 2021, when the proposed project opens, Blessing's surgical utilization will meet the State utilization standard. The enclosed table presents surgical utilization for the Blessing Hospital ORs and procedure rooms, and the Blessing ASTC ORs and procedure rooms. Using the data highlighted in the section of the table colored tan (the most recent Blessing data accepted by the HFSRB on December 4), total hours of surgeries and procedures (for inpatient and outpatient cases) increased from 15,069 hours in 2013 to 19,020 in 2017. This is an average annual increase of 6.6%. Applying this historic rate of growth to forecast future volumes, utilization of the rooms will be at 24,560 hours in year 2021. Using the State standard of 1500 hours per room per year, 16.4 rooms are needed, or 17. As a result, the existing rooms are already approaching full utilization. Planning for additional capacity required in year 2021 needs to be underway now. The proposed project will open in year 2021, and will provide additional needed capacity. The use of projections based on historic data is justified, and was used by Blessing in its recent CON permit application (# 18-013) for bed modernization, which was approved by the HFSRB in July, 2018.

During the public hearing, Blessing's senior leadership reported that current utilization of Blessing's ORs at the existing ASTC is 82% using HFSRB criteria. This is an increase from 2017 reported data and supports the historic realized growth rate utilized to compute Blessing 2021 utilization levels. Blessing's own data, using HFSRB criteria, supports the finding that Blessing's operating rooms will meet or exceed the State utilization standard by 2021.

The number and types of procedures performed in an ambulatory setting are increasing. This continuing trend supports the case that Blessing's outpatient growth will continue. Not included in our conservative analysis, but an additional supporting factor, is the expected increase in outpatient hours due to physician growth and correction of current outmigration cases. Blessing's recent permit application (# 18-010) promoted its recent and projected physician growth, with Blessing stating "Last year Blessing recruited 28 new physicians and a plan to recruit that many more in 2018-19." (Blessing Permit Application, Project No. 18-010, p.65, attached as Exhibit 2.) Like Blessing, QMG is growing. In 2017, QMG recruited 7 physicians and 5 advanced practice providers. In 2018, QMG recruited 10 physicians and 3 advanced practice providers. QMG expects to recruit a similar number of physicians and advanced practice providers in 2019, with six new providers signed to date. Additionally, the proposed surgery center will help to correct outmigration issues, as patients who might otherwise leave the Quincy area to receive lower cost procedures or procedures not currently performed in the existing surgery center will now have an incentive to receive care locally. As Blessing stated in a recent public hearing, "the biggest area that we have identified outmigration is in orthopedics, and we are watching 750 and above cases leaving the marketplace due to access, due to ***service accessibility***" and "[w]e see about 20 to 30 million – not on cases but we look at a dollar amount – that migrate out of the region." (Public Hearing Transcript for Project 18-010, p. 117 - 118, attached as Exhibit 3.) The proposed surgery center will greatly help to remedy these outmigration issues.

Exhibit 1

The project satisfies the second Service Accessibility sub-criterion.

3. Specific ASTC Services and Types of Procedures Are Not Currently Available in the GSA and Existing ASTC has Restrictive Policies.

The third criterion requires that either ASTC services or specific types of procedures that are components of an ASTC are not currently available in the GSA, or that existing underutilized services in the GSA have restrictive admission policies. Both situations are present and will be addressed by the proposed surgery center.

First, as noted in QMG's application, specific types of procedures and/or operations that are components of an ASTC are not currently available in the existing ASTC but will be performed in the new surgery center – including, but not limited to, urology procedures, certain ENT-related procedures, certain neurosurgery procedures, certain orthopedic procedures, and cardiac catheterization services.

Second, it is our understanding that the local hospital is charging facility fees based on HOPD rates for procedures performed in its existing ASTC, and we understand this results in a facility fee that is 30 – 50% higher than the fee that will be charged in the proposed non-hospital based ASTC. The higher costs are such an issue that we understand that Quincy area employers have gone so far as to encourage their employees to "shop around" for cost effective quality health care services. Also due to cost reasons, we further understand that area residents have chosen to have procedures performed in Columbia, St Louis, and Springfield in order to obtain lower out-of-pocket costs and savings to their employers. Given the information we have received, the unnecessary HOPD rates are a de-facto restrictive condition or policy. As Blessing's ASTC is the only ASTC in HSA 3 outside of Springfield, a distance of over 100 miles, it is our client's position that Blessing Hospital has been able to keep its restrictive conditions or policies in place without competitive pressure. A new provider to the area is greatly needed to increase patient choice and lower costs.

4. A Cooperative Venture with Local Hospital is Not Feasible or in Best Interest of Patients or the Community.

A cooperative venture with the local hospital is not what patients or the community needs nor would it be a workable venture. The only existing hospital providing outpatient services to the population of the GSA is Blessing Hospital. A cooperative venture with Blessing Hospital – which we understand currently chooses to charge high facility fees based on hospital outpatient department ("HOPD") rates for the same services that can be performed at lower ASTC rates - is not what the community needs. The community needs an additional, independent provider bringing lower cost incentives and competitive pricing to the Quincy area.

Exhibit 1

It is our understanding that our client, QMG, and the local hospital have a history of friction on various issues. Our client has informed us that failed alignment efforts to date have created a condition where a cooperative venture is simply not workable. Dating back to June 2018, we were informed by our client that months before our application was filed, QMG proposed numerous alignment and partnership opportunities to Blessing. The opportunities for collaboration proposed by QMG included, without limitation, shared governance, joint venture opportunities, and clinical alignment through shared service lines. Prior to filing the application, QMG carefully considered a joint venture with Blessing for the proposed surgery center. No formal proposal was made to Blessing, and the alternative was not pursued further by QMG, as the joint venture would require that QMG be a majority owner and that services not be billed at hospital outpatient billing rates. Based on our client's prior discussions with Blessing, QMG understood that Blessing was not interested in a joint venture under those terms. Further, because Blessing had previously rejected proposals by QMG for various alignment opportunities, it appeared that Blessing was not interested in pursuing any ASTC joint venture with QMG. Even after filing the application, we understand that QMG has continued to meet with Blessing regarding potential collaboration opportunities, including discussions regarding the proposed surgery center. In this regard, we understand Blessing has confirmed it has no interest in pursuing a joint venture for the surgery center at the proposed location.

As required in the HFSRB's review criteria, QMG sought and obtained transfer agreements with area hospitals that have open heart surgery capabilities. St. John's Hospital of Springfield and UnityPoint-Peoria agreed to enter into a transfer agreement with QMG without hesitation, recognizing the importance of having a coordinated plan in place in the event a transfer may be needed. To date, despite QMG's request, it is our understanding Blessing has not entered into a transfer agreement with QMG. Our client believes that Blessing's refusal is further evidence of Blessing's rejection of any aspect of collaboration, even when the collaboration is undeniably in the interest of patient safety.

As Blessing stated during the Public Hearing, Blessing's response to QMG's filing of the permit application was to issue a letter threatening to terminate the management agreement for the existing ASTC. In other clinical service areas, our client has informed us that Blessing has already issued two termination notices pertaining to QMG's medical administrative contractual relationships at Blessing Hospital and QMG physicians are concerned that Blessing may limit their ability in the future to exercise privileges in certain services at Blessing Hospital, specifically noted was the ICU. In short, it is our client's position that Blessing is engaged in a strategy to thwart competition in the marketplace by not collaborating with local providers it perceives as competition to its financial bottom-line.

QMG physicians believe that they have been good partners to Blessing over the years. QMG has never opposed, nor put forth any obstacles, to Blessing's growth in the Quincy community. QMG physicians have sought to maintain a collaborative relationship with Blessing, evidenced by the many Blessing department leadership positions held by QMG physicians, the majority of admissions to Blessing by QMG physicians, and the reputational strength that QMG physicians have helped Blessing

Hospital build over the decades. Blessing is QMG's hospital. Despite Blessing's continued opposition to this project, QMG will continue to be a good partner to Blessing when partnerships are feasible and in the best interest of patients and the community.

A cooperative venture with Blessing Hospital is simply not feasible for the proposed surgery center, nor is it in the best interest of patients or the community.

Three of the four sub-criterion are satisfied by the proposed project. Given that at least one of the four sub-criteria are satisfied, the proposed project satisfies the Service Accessibility criterion.

B. Projected Utilization – 77 Ill. Adm. Code 1110.120(b).

The proposed project complies with the Projected Utilization criterion. To demonstrate compliance with this criterion, QMG must demonstrate that by the end of the second year of operation of the surgery center, the annual utilization of the clinical service areas or equipment will meet or exceed State utilization standards. The utilization standard for an ASTC is 1,500 hours per operating/procedure room.

QMG's plan for 8 rooms (5 ORs and 3 procedure rooms) is supported by historic and projected surgical cases and procedures and cardiac catheterizations. As set forth in great detail in our application (see Attachment 15 of Permit Application), the conservative projections made by QMG's CON consultant reveal that by the end of the second year of operation of the surgery center, or by 2023, the proposed surgery center will have a case volume of 12,654 cases or 10,650 hours (using a .84 conversion rate). The State utilization standard is 1500 hours per OR or procedure room. Therefore, the projected hours support or justify 7.1 rooms for surgical cases and procedures. The 8th OR will be dedicated to cardiac catheterization services, and, as noted in our application (see Attachment 15 of Permit Application), QMG projects 629 cases by the end of the second year of operation. 629 cases exceed the State standard of 200 cases.

Not included in our conservative analysis, but an additional supporting factor, is the expected increase in outpatient hours due to QMG physician growth and correction of current outmigration cases as discussed in greater detail under Section I.A.2 and Section I.C below.

As a result, the proposed project satisfies the Projected Utilization criterion.

C. Service Demand – 77 Ill. Adm. Code 1110.235(c)(3)(A)-(C).

The proposed project complies with the Service Demand criterion. To demonstrate compliance with this criterion, QMG must demonstrate that the proposed project is necessary to accommodate the service demand, as evidenced by historical and projected referrals.

Exhibit 1

As noted in our application, the projected patient volume for the proposed surgery center demonstrates that the project is necessary to accommodate service demand in the GSA. QMG has attested to a commitment of 10,712 surgical cases for the proposed surgery center. This commitment is based on historical outpatient surgical cases that have been conducted by QMG physicians and which would be appropriate for treatment at the proposed ASTC. The commitment supports the projection of 12,654 cases for year 2023 (two years after project completion). The projected patient volume meets the requirement that the project serves residents of the GSA.

The numbers above are conservative and do not take into account QMG physician growth. QMG, like Blessing, is actively recruiting physicians. In 2017, QMG recruited 7 physicians and 5 advanced practice providers. In 2018, QMG recruited 10 physicians and 3 advanced practice providers. QMG expects to recruit a similar number of physicians and advanced practice providers in 2019 (six new providers signed to date) and 2020. The prospect of the proposed surgery center has only increased recruitment interest and efforts. The increased number of physicians will allow for additional procedures to be performed and surgical case volumes will increase.

D. Unnecessary Duplication, Maldistribution, and Impact to Area Providers – 77 Ill. Adm. Code 1110.235(c)(7)(A)-(C).

To demonstrate compliance with the Unnecessary Duplication/Maldistribution/Impact to Area Providers criterion, an applicant must document that the project will not result in an unnecessary duplication, mal-distribution of services, or adversely impact area providers.

As the HFSRB is aware, the establishment of an ASTC almost always results in a finding of duplication of service. Here, however, the proposed ASTC is necessary and, due to QMG's careful planning, will not adversely impact Blessing.

There is only 1 other ASTC located in the GSA, and our client informs us that the ASTC does not:

- Offer lower, competitive ASTC rates;
- Allow surgical cases to be performed after 3 or 3:30 p.m. or on weekends;
- Offer outpatient urological procedures or a broad range of ENT-related, neurosurgery, and orthopedic-related procedures;
- Have the capacity to accommodate future projected volumes;
- Have the capability and equipment to perform various types of surgical procedures; and
- Offer cardiac catheterization services.

Further, if it is true that Blessing Hospital believes that the useful life of the existing ASTC is only three years, then by 2021/2022, the GSA will be devoid of access to an ASTC. QMG's proposed surgery center will fill that void. At that point, there will not be any duplication, let alone an unnecessary one.

As noted above, before QMG filed its application, QMG's consultant informs us that Blessing submitted utilization data for its hospital and ASTC to the State, correcting 2016 reported data and providing 2017 data. QMG first became aware of this data when the State published it in early November 2018, shortly after QMG filed its application. The data showed a dramatic increase in outpatient surgery for 2016 and 2017 and demonstrated that the proposed surgery center would not have an adverse impact on Blessing. However, within weeks of the publication, Blessing submitted new data to the State for 2016 and 2017 significantly reducing Blessing's outpatient surgery hours.

Even with the reduced hours, however, an analysis of the data reveals that the proposed surgery center will not have an adverse impact on Blessing. The data on the enclosed page (submitted by Blessing to the State on December 4) shows an increase in <u>outpatient</u> surgery hours at Blessing Hospital and its surgery center from 2013 to 2017 (increasing from 9984 hours in 2013 to 13,636 hours in 2017). This 37% increase is an average annual increase of 9.25%. The increase from 2016 to 2017 was 14.8%, more than double the average annual increase for the previous three years, and justifying a weighting of 10% for projections. Projecting a 10% annual increase through year 2023 (two years after project completion) results in a projected 24,157 hours of <u>outpatient</u> surgery/treatments at Blessing Hospital and the Blessing ASTC in year 2023. Allowing for QMG's projected 10,650 hours at the proposed ASTC results in a volume of 13,507 hours remaining at Blessing Hospital and its ASTC in year 2023. (24,157 – 10,650 = 13,507) 13,507 hours is substantially the same as the 13,636 hours reported by Blessing at its hospital and ASTC in year 2017.

This calculation specifically refutes Blessing's claims that the project is an unnecessary duplication of service or that Blessing will be adversely impacted by the project. As the data demonstrates, the project will not adversely impact Blessing.

In Blessing's testimony at the public hearing and its press conference on February 4, Blessing alleged that the project will have a devastating impact on its market share and profitability. Blessing specifically claimed that it will lose $25 - $41 million per year in revenue and need to lay off 400 employees and stop providing safety net services. QMG's consultant's projections show that Blessing's volumes will be approximately the same in 2023 as they are now. Further, and importantly, it is not the responsibility of the HFSRB to maintain Blessing's market share or profitability or to shield Blessing from competition. *Provena*, 382 Ill. App. 3d at 48. Further, the purpose of the Act is not to project jobs. *Id.* It is the HFSRB's responsibility to determine whether access for the residents of a planning area will be enhanced by the addition of a proposed facility. The proposed facility will undeniably increase and enhance accessibility to residents of the Quincy area.

Exhibit 1

Blessing's claims are further refuted by its own proclaimed physician growth (recruitment of 28 physicians last year and a plan to recruit 28 more in 2018-19), its institutional growth and related expenditures (including, but not limited to, Blessing's recently approved application to construct a $40 million medical office building in Quincy), and QMG's own physician growth (recruitment of 17 physicians and 8 advanced practice providers in 2017-2018 and a plan to recruit a similar number of physicians and advanced practice providers in 2019-2020). Moreover, while Blessing stated it will need to lay off 400 employees - of which it would appear Blessing has already selected will be nurses based on the opposition testimony and letters Blessing has encouraged its employees to submit to the HFSRB – Blessing is also simultaneously proclaiming a nursing shortage in the area. One might question why, even if Blessing's claims of loss of revenue were true, Blessing would choose to lay off its nursing staff when a nursing shortage exists.

The evidence reveals that the proposed project satisfies the Unnecessary Duplication/Maldistribution/Impact to Area Providers criterion. The proposed surgery center will deliver high quality, cost-effective services to the community, meet the increased need for outpatient surgery, increase community access to various procedures not currently available or performed in the existing ambulatory surgery center, and further QMG's strategic mission – all while not adversely impacting area providers.

II. <u>BLESSING'S DATA IS POTENTIALLY UNRELIABLE AND MAY IMPACT THE HFSRB REVIEW PROCESS.</u>

In order to appropriately review a project for compliance with the HFSRB's applicable review criteria, the HFSRB must have reliable, accurate data. The HFSRB relies upon providers to timely submit accurate data. If a provider submits unreliable and inaccurate data, that data can significantly impact whether a project receives a positive or negative finding in relation a particular review criterion. While a project need not satisfy all review criteria, or even a specific number of criteria, to justify approval, this fact does not minimize the importance of the HFSRB having accurate data when it performs its review of a project and prepares its Staff Report.

As discussed above in great detail (see Section I.A.2), and as QMG's consultant has informed us, Blessing has submitted differing volume reports for its inpatient and outpatient hours. The evolving data demonstrates significant changes without valid justification. Relevant submissions are noted below:

- In March 2018 (prior to QMG's application being filed), Blessing submitted 2017 data in its Annual Hospital Questionnaire. The data was published in November 2018 (after QMG's application was filed);
- On December 4, 2018 (after QMG's application was filed), Blessing submitted and the HFSRB approved revised data for 2016 and 2017; and

- On January 23, 2019 (one day before the Public Hearing requested by Blessing), Blessing submitted recreated data for 2014 – 2017. The data awaits HFSRB approval.

In one correction, it appears Blessing reduced its recorded ASTC OR hours from 9,622 to 4,810, a reduction of 50%. In another correction, Blessing corrected its failure to report any hospital procedure room cases in 2016 and 2017. It is our client's position that these mistakes have the potential to significantly impact a project and should have been apparent and corrected in a quality review of the data by Blessing before it was submitted to the State.

A provider opposing a project cannot be allowed to recreate, revise, and submit data for a particular service while a project addressing the same service is in the review process. Such conduct raises concerns that the data is no longer reliable and that there has been an inappropriate manipulation of the data in an attempt to affect the review outcome. Here, Blessing, as a local provider challenging the proposed project, has submitted numerous data changes to the State – data that addresses outpatient surgeries and procedures. This data is incredibly relevant to the proposed project and the HFSRB's review.

The timing of the data submissions is also concerning because prior to receiving QMG's application, Blessing had submitted data to the State self-reporting a dramatic increase in outpatient surgeries and procedures. Suddenly, after receiving QMG's application, Blessing submitted new data significantly reducing its outpatient surgeries and procedures. Then, after formally opposing the project and requesting a public hearing, Blessing again submitted new data. How can the HFSRB and QMG be certain that this new data is correct, especially when Blessing is now stating that its prior submissions were inaccurate? The accuracy and reliability of Blessing's data should be questioned, particularly in light of the timing associated with the same. Reliance on changing and evolving data threatens the validity of the HFSRB review process and is likely to lead to inaccuracies and, ultimately, legal errors.

Your consideration of this letter is appreciated. Please do not hesitate to contact us with any questions or concerns you may have in relation to the proposed project.

Sincerely,

Tracey J. Klein

Tracey Klein

Enclosures – Exhibits and Table
cc: Ralph Weber

Exhibit 1

POLSINELLI

150 N. Riverside Plaza, Suite 3000, Chicago, IL 60606 • (312) 819-1900

February 13, 2019

Tracey Klein
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(312) 803-2183 Direct Fax
tklein@polsinelli.com

HFSRB Members
Ms. Courtney Avery
Mr. Michael Constantino
525 West Jefferson Street, 2nd floor
Springfield, IL 62761

Re: **Quincy Medical Group Surgery Center, Project 18-042**
Cooperative Venture

Dear Members of the HFSRB, Ms. Avery, and Mr. Constantino:

We submitted a February 8, 2019 letter addressing how QMG's proposed project substantially conforms with all applicable HFSRB review criteria, including the Service Accessibility criterion. In that regard, we addressed whether a cooperative venture with Blessing Hospital would be feasible and in the best interest of patients and the community.

As noted in the letter, there have been numerous failed alignment efforts dating at least back to June 2018. While our client has advised that QMG considered a joint venture with Blessing for the proposed surgery center before filing the pending application, the alternative was not pursued further by QMG. It was QMG's impression that Blessing Hospital would not agree to a joint venture unless Blessing was the majority owner. Further, as noted in the letter, subsequent to the filing of the application, QMG and Blessing Hospital discussed a potential joint venture for the proposed surgery center at the proposed location. We were informed by our client that Blessing Hospital expressed no interest in a cooperative venture for the new surgery center at the proposed location.

On the evening of Monday, February 11, 2019, subsequent to our February 8, 2019 letter, we understand that Blessing submitted a written proposal to QMG physicians regarding a joint venture with QMG for the ***existing*** surgery center at 1118 Hampshire Street. **Of importance, the "non-binding expression of interest" proposal was not in relation to QMG's proposed surgery center currently pending HFSRB approval.**

While it is our understanding that QMG does not customarily share its business dealings with the public, in the interest of full transparency, QMG wanted to ensure that the HFSRB was aware of the proposal as we anticipate it could be perceived as relevant to QMG's application.

Exhibit 2

Blessing's joint venture proposal in relation to Blessing's ***existing*** surgery center set forth a number of terms, including, but not limited to, the following:

- Blessing would retain the majority of equity in the surgery center - at least 60%;
- Blessing would "plan[]" to syndicate up to 40% ownership in the surgery center to "eligible" physicians who could purchase equity ownership interests for cash at fair market value and for those physicians it would "make the most sense" to be investors;
- QMG physicians with equity ownership would be required to enter into a non-compete agreement, prohibiting the physicians from owning or managing another ASTC within 30 miles of the surgery center for the duration of their ownership and three years following termination or withdrawal of their ownership, with no mention of any similar non-compete requirement for Blessing physicians; and
- If QMG was interested in the proposal, QMG would be required to immediately withdraw its CON application for the new surgery center at the proposed location.

QMG is appreciative of Blessing's proposal and remains open to continued discussions with Blessing, especially as they relate to improving care and services for the Quincy community. Further, QMG is pleased that, according to Blessing, it is in the process of designating the status of its existing surgery center from a hospital outpatient department to a freestanding ambulatory surgery center. It appears that Blessing is finally taking steps to address the exorbitant facility fees that have caused great angst for local residents and employers for years, steps that would likely not have been taken had QMG not filed its application in late October 2018. This is clear evidence of the beneficial effects of competition.

Even if Blessing proceeds with its designation change and, once obtained, begins charging lower facility fees based on ambulatory surgery center rates rather than hospital outpatient department rates, the need for a new surgery center remains. QMG has repeatedly articulated that the need for the new surgery center is not based solely on reducing costs. QMG's proposed surgery center will, among other benefits, increase patient access to various outpatient procedures, improve quality of care, increase patient choice, economically benefit the Quincy community, offer cardiac catheterization services, accommodate future projected volumes, and further the strategic mission of QMG. As such, Blessing's purported move toward reducing its high facility fees is merely one part of the equation and does not solve the issues with the existing surgery center nor eliminate the need for QMG's proposed surgery center.

Please do not hesitate to contact me with any questions. Thank you for your continued assistance.

Sincerely,

Tracey L. Klein

Tracey Klein

Exhibit 2

18-042

Carol Y. Mohr
305 Spruce St.
Quincy, IL 62301
March 6, 2019

RECEIVED
MAR 14 2019
HEALTH FACILITIES &
SERVICES REVIEW BOARD

Illinois Health Facilities and Services Review Board
525 W. Jefferson
Springfield, IL 62761

2001 Rodeo Drive
Bolingbrook, IL 60490

Dear Illinois Health Facilities and Services Review Board:

I am writing this letter in support of the expansion of Quincy Medical Group to the former Bergner's Building at the Quincy Mall. Please reconsider your vote for the sake of the current patients and potential patients of health care in Quincy, Illinois. In no specific order, I state my plea.

Concerns/Observations:

- Duplication of services: If you want to see a true duplication of services, walk in the north entrance of the Moorman Pavilion at Blessing Hospital. There on the bottom floor, you will encounter the infusion services of Blessing Hospital—directly above it on the main floor are the infusion services for Quincy Medical Group. The argument that the new facility would make for duplication of services has no warrant; we have been duplicating services in Quincy for years. It is called choice. Besides, I have had occasion to use the infusion services of QMG. It was crowded! QMG has no room to go there. One patient had to have attention when she had a reaction to her chemotherapy. The nurses had to move me to reach her. That should NEVER happen.
- Not enough patients: We are well on our way to becoming a major medical center for west central Illinois. There are enough patients. If Blessing truly believed that there are not enough patients, then they would not continue their own building blitz.
- Build more surgical suites on the top floor of the Hampshire building: What a cavalier attitude on the part of Blessing Hospital! Where are patients supposed to park without having to walk for blocks? QMG's Maine and Hampshire locations are exhausted.
- Blessing's takeover of Quincy: Goodness! Blessing reminds of the little boy who has every toy in the toy box—except one, and he is going to do everything possible to make sure no one else gets that one! A person cannot turn a corner in Quincy without tripping over some facility or potential facility labeled "Blessing Hospital". I am truly not complaining; in fact, I am proud and hold an overwhelming feeling of security. I am 64 years-old and have already had one incidence of cancer. The more health services I see offered in Quincy, the less likely I am to have to go out of town for care. But, with apologies to Blessing: Stop Whining!

Exhibit 3

Look at that magnificent facility they are building on 48th Street, look at that huge former St. Mary's lot on Broadway, look at the old homes coming down on Broadway. They have no legitimate complaints about expansion.

- Use of the former Bergner's building: You cannot imagine my excitement when I first heard of QMG's expansion plans! The parking alone makes me giddy! To have many LARGE parking spaces available within a reasonable distance from an entrance to a climate-controlled environment! I could even park at the back of the Mall and quickly be inside out of the weather as I make my way to QMG's facility. The wonderful ramped drive for patient drop-off and pick-up! Convenient and out of traffic's way! The access to the stores and dining in the Mall while a family member is waiting for me to complete any treatment I might require. Easy access for walk-up care! What a financial boon for so many in the area! It could well be the salvation of our Mall shopping—and we have lost so much of shopping in Quincy in recent years.

I actually am quite a fan of Blessing Hospital. I have used their facilities, either personally or for my parents; I will use their facilities in the future. I realize I am just a small voice in a vast plan, but please consider the positive impact that such a move by QMG could have for patients. And, that is what healthcare is all about—patients and what is best for them.

Thank you for listening to me.

Sincerely,

Carol Y. Mohr

Carol Y. Mohr

CC: Springfield

Bolingbrook

Quincy Medical Group

Exhibit 3

March 25, 2019

Members of the Illinois Health Facilities and Services Review Board
525 West Jefferson Street, 2nd floor
Springfield, Illinois 62761

Re: Project 18-042, Quincy Medical Group Surgery Center

Dear Members of the Illinois Health Facilities and Services Review Board:

We are writing on behalf of our respective organizations to address comments made during the March 5, 2019 Illinois Health Facilities and Services Review Board ("Board") meeting and to express our continued support for Quincy Medical Group's proposal to establish an ambulatory surgery treatment center in Quincy.

Our organizations have a strong presence in Quincy and Adams County. We are dedicated to improving health outcomes and healthcare choices and ensuring that employees and area residents have access to high quality healthcare options at an affordable cost. We are also committed to maintaining and improving the economic vitality of Quincy and Adams County. We have previously expressed written and/or verbal support for the proposed project on behalf of our respective organizations.

We were disappointed on March 5, 2019 that the Quincy Medical Group surgical center project received an Intent to Deny. We note that several Board members commented on the adversarial statements made during the public participation portion of the meeting and that a suggestion was made that Quincy Medical Group seek involvement from a leading community member or organization in the Quincy community to determine ways that Quincy Medical Group and Blessing Hospital can work together.

As leading community members and organizations in Quincy and Adams County, we believe it is imperative that the Board be made aware of our position regarding any potential cooperative venture between Quincy Medical Group and Blessing Hospital in relation to the proposed surgery center. We strongly believe that co-ownership of a surgery center between Quincy Medical Group and Blessing may not be in the best interest of our community as it would not lead to increased patient choice, increased competition, competitive pricing, or reduced costs. The Quincy community wants and needs a second surgery center in Adams County – one that is not owned by or affiliated with the owner of the existing surgery center. Our organizations have consistently expressed a desire for more choice when selecting a healthcare facility, as having more than one choice generates market competition to improve cost and enhance healthcare quality.

Exhibit 4

While we do not support - and, in fact, discourage - a cooperative venture between Quincy Medical Group and Blessing Hospital in relation to a surgery center, we do support the two providers working together on other collaborative and alignment efforts. The two have successfully worked together on various projects and initiatives over the years, and the two continue to work together on a daily basis in providing quality healthcare to their patients from Quincy and surrounding communities. We understand that Quincy Medical Group recently reissued a previous proposal regarding numerous alignment opportunities to Blessing Health System with a central focus on patient safety, quality, and cost reduction. We are in full support of the parties pursuing these opportunities.

Accordingly, we ask that the Board not impose a requirement or force Quincy Medical Group to "work together" with Blessing Hospital in relation to the proposed surgery center. Rather, we ask that the Board recognize the needs and wants of the Quincy and Adams County community. We need and want choice for our employees, their families, and the community in general regarding ambulatory surgical care. We support our local physician group, Quincy Medical Group, which has been providing cost-effective, quality healthcare to residents in Quincy and Adams County community for more than 80 years.

We strongly urge that this Board approve Quincy Medical Group's project.

Sincerely,

Beverly Helkey
Executive Director
Tri-State Health Care Purchasing Coalition

Jim Rubottom
Vice President Human Resources
The Knapheide Manufacturing Company

Richard McNay
President
McNay Truck Line

Clayton W. Lamkin
Vice President, Finance North America
Phibro Animal Health Corporation

Gary R. Wright
President
Teachers Coalition on Health

Exhibit 4

A market-oriented forum for health care solutions

MEASURING THE POTENTIAL IMPACT OF A COMPETING SURGERY CENTER IN QUINCY, IL

The Economic Peril of High Health Care Costs

Health care costs are a major concern for employers, especially in tight labor markets. In Illinois, insurance premiums have been increasing at a rate of 5% to 8% per year over the last three years.[1]

Because of its location, there is limited private-employer medical cost data for Quincy. One publicly available proxy is the premiums charged in the Illinois ACA Exchange. In 2018, ACA premiums were 5 percent higher in Adams County (where Quincy is located) than the average of other counties with similar-size hospitals.[2] As a result, the average Adams County resident enrolled in the exchange pays $432 per year more than someone living in Springfield, and $2,052 more per year than someone living in Cook County.[3] Hospital costs typically represent 30% to 40% of total health care costs. A hospital with costs 15 percent above average will add 4% to 6% to overall health care costs, provided that all other costs are equal.

Comparing Blessing to Similar-Size Hospitals

HCTrends, in conjunction with BSG Analytics (BSGA), conducted three different analyses comparing Blessing and similar-size hospitals:

- A cost and margin analysis of 25 hospitals in western Illinois, eastern Missouri and eastern Iowa based on Quantros CareTracks® Provider Profiling System
- A cost and margin analysis of eight hospitals in western Illinois based on hospital cost reports filed with CMS
- Claims analysis for Quincy Medical Group's employer health plan

The three analyses were consistent in their findings that Blessing has higher costs and higher margins than other hospitals in the area. The analyses found that:

- Blessing's outpatient costs are 14-17% above the median average of other hospitals[4]
- Blessing's outpatient margins are 6-8% higher than the median average of other hospitals[5]

Exhibit 5

- Blessing's outpatient fees are 16-43% more than employers pay for outpatient services at other similar-size hospitals in the area[6]

These findings align with a recent study by researchers at Yale University, University of Pennsylvania, and Carnegie Mellon University, which concluded that monopoly hospitals' prices are, on average, 15.3% percent higher than hospital prices in competitive markets.[7]

Other studies have shown that hospital dominance drives commercial prices higher, and that hospitals in non-competitive markets tend to have higher costs due to the lack of market discipline. For example, a 2010 study published in *Health Affairs* concluded that: "The apparent chain of causation is as follows. Strong market power leads hospitals to reap higher revenues from private payers. This in turn leads these hospitals to have weaker cost controls. The weaker cost controls lead to higher costs per unit of service."[8]

Blessing has seen its patient revenue increase 54 percent, which is three times the average growth rate for similar-size hospitals in the area.[9] This is likely due to Blessing's dominant 80-percent market share, which is more than double the average market share of similar-size hospitals in western Illinois.[10]

The Potential Community Benefits of QMG's Proposed ASC

Quincy Medical Group's proposed ambulatory surgery center (ASC) could help to constrain costs by injecting competition into the local health care market, giving health care purchasers some leverage in negotiating prices. In a 2015 report, the National Academy of Social Insurance concluded that "market competition is often the best way to motivate providers to increase efficiency, improve quality and ensure that health care prices reflect the value of services provided to consumers."[11]

Quincy Medical Group could also lower prices by offering medical services at a lower-cost surgery center. In a study published last November (2018), The Workers Compensation Research Institute (WCRI), concluded that, in Illinois, knee surgeries were 25 percent less costly when done in ASCs compared to hospital outpatient settings, while the costs for shoulder surgeries were "similar."[12]

Medicare data shows that payments for procedures performed in hospitals cost twice as much as procedures performed in surgery centers. Following are three examples:

- An endoscopic removal of knee cartilage costs, on average, $1,280 in a surgery center and $2,645 in a hospital outpatient setting[13]
- A colonoscopy with polyp removal costs $480 in a surgery center and $936 in a hospital outpatient setting[14]
- An endoscopic biopsy of the esophagus, stomach and/or upper bowel costs $387 in a surgery center and $743 in a hospital outpatient setting[15]

Other studies have shown that ambulatory surgery centers can reduce costs and improve safety because of their specialized staff and focus on specific procedures.

According to a study published in *Health Affairs*, patients treated in ASCs spent 31.8 fewer minutes undergoing procedures than patients treated in hospitals – a 25-percent reduction. That time savings alone could generate savings of $363 - $1,000 per outpatient case. [16]

Exhibit 5

The Potential Impact of a New Surgery Center on Blessing Hospital

BSGA analyzed Blessing Hospital's financial and encounter data to determine how Blessing might be impacted by a competing surgery center. The analysis found that Blessing is a financially healthy hospital. Its total margin, which includes patient, non-patient and investment revenue, was 11.6% in 2017, which was four times the median of comparable hospitals. It's return on equity was 15.2%, the highest of the Illinois hospitals analyzed. Its cash on-hand was $63 million in 2017, seven times higher than the median of comparable hospitals.[17]

Blessing currently charges a hospital outpatient facility for procedures it performs in its ASC, which can add 20 percent to costs. Blessing has stated it plans to stop the practice, which will reduce costs, but will not address the center's capacity issue. The Illinois Health Facilities and Services Review Board staff has determined that Blessing's surgery center is at target capacity, which means that it will not be long before procedures will have to be performed in the hospital outpatient facility, which will mean higher facility charges.[18]

The proposed Quincy ASC would address potential growth challenges in a lower-cost setting.

Patient Safety

Safety is an important consideration for surgical procedures. A comparison of 2010 hospital and ASC safety data indicated the rate of surgical site infections was half the rate in ASCs as it was in hospital settings (4.84 per 1,000 vs. 8.95 per 1,000).[19]

CMS recently gave the green light for 12 cardiac catheterization procedures to be performed at ambulatory surgery centers starting this year. This determination occurred after the agency assessed each of the procedures against regulatory safety criteria and determined they could be appropriately performed in an ASC. CMS estimates that Medicare and Medicare recipients could save $50 million alone this year (2019) if just 5% of cardiac catheterizations are shifted from a hospital outpatient setting to an ASC.

Conclusion

Blessing Hospital has a dominant market share, which has allowed it to realize significantly above-average growth in patient revenue, as well as above-average margins. This has translated to higher insurance costs, which is a financial burden for employers, employees and residents.

Allowing limited competition – in the form of an ASC – would give health care purchasers leverage to secure lower rates and would ensure that future growth in outpatient procedures would be done in an ASC instead of a higher-cost outpatient setting.

Exhibit 5

[1] Medical Expenditure Panel Survey data for state of Illinois (2014-2017); 2017 most current year available

[2] Average premium information is from data collected by the federal government for all participating federal ACA exchanges in 2018, the most recent year for which data is available. BSGA compared average premiums in western Illinois, eastern Missouri and eastern Iowa in which there was a hospital of similar size in that county.

[3] 2018 Health Care Exchange Public Use Files

[4] BSGA analysis of CMS hospital cost reports and CareTracks® hospital profiles

[5] BSGA analysis of CMS hospital cost reports

[6] BSGA analysis of Quincy Medical Group employee plan claims

[7] "The Price Ain't Right? Hospital Prices and Health Spending on the Privately Insured," Zack Cooper, Stuart Craig, Martin Gaynor, et al., December 2015

[8] "Private-Payer Profits Can Induce Negative Medicare Margins," Jeffrey Stensland, Zachary Gaumer and Mark Miller, *Health Affairs* May 2010

[9] BSGA analysis of five-year patient revenue data from CMS hospital cost reports

[10] The weighted average is based on the Medicare market share for a hospital's top three ZIP codes for discharges; data is from Blessing's FY2017 hospital cost report filed with CMS

[11] "Addressing Pricing Power in Health Care Markets: Principles and Policy Options to Strengthen and Shape Markets," National Academy of Social Insurance, April 2015

[12] "Comparing Payments to Ambulatory Surgery Centers and Hospital Outpatient Departments," Bogdan Savych and Rui Yang, WCRI Flash Report, November 2018

[13] Procedure Code 29881, www.medicare.gov/procedure-price-lookup/cost/29881

[14] Procedure Code 45385, www.medicare.gov/procedure-price-lookup/cost/45385

[15] Procedure Code 43239, www.medicare.gov/procedure-price-lookup/cost/43239

[16] "Procedures Take Less Time at Ambulatory Surgery Centers, Keeping Costs Down," Elizabeth Munnich and Stephen Parente, *Health Affairs*, Vol 33, No. 5, May 2014

[17] BSGA analysis of CMS hospital cost reports

[18] March 5, 2018 Board Meeting, Illinois Health Facilities and Service Review Board (page 23)

[19] "SSI Rates: Hospitals vs. ASCs, 2010," Becker's ASC Review (Feb. 20, 2014). Hospital data came from 2010 CDC-NHSN data; ASC data came from a study published in the *Journal of the American Medical Association*: "Surgical Site Infections Following Ambulatory Surgery Procedures," (Feb. 19, 2014, pages 709-716)

Exhibit 5

QUINCY MEDICAL GROUP

March 20, 2019

VIA E-MAIL & U.S. MAIL

Timothy Koontz, Chairman
Blessing Corporate Services, Inc. Board of Trustees
P.O. Box 7005
Quincy, IL 62305

Dear Mr. Koontz:

Thank you for taking my call last week. The purpose for my call was to discuss the March 5, 2019 CON Board meeting and whether Blessing would be interested in meeting to discuss collaborative and alignment opportunities.

As you know, our project received affirmative votes from three of the five CON Board members present at the meeting. The two remaining CON Board members abstained from voting after commenting at length on the adversarial nature of the comments made during the public comment portion of the meeting. QMG feels strongly that our project would have received unanimous approval had the CON Board not been flooded with negative, adversarial comments submitted at Blessing's request or on Blessing's behalf. The QMG Board has grown frustrated and tired of what we perceive to be improper opposition tactics implemented by or on behalf of Blessing since we filed our CON application last fall. These tactics were on full display at the CON Board meeting– which led to a lengthy and at times unnecessarily adversarial meeting and clearly frustrated several members of the CON Board and diverted attention from the true merits of the project.

A common theme mentioned by several CON Board members was the need for both QMG and Blessing to work together for the benefit of patients and the community. During our call last week, we agreed that our patients and the community want and need us to work together. Focus on patient safety and quality is of common interest. As you know from QMG's lack of opposition to Blessing's CON projects last year, QMG does not believe we need to collaborate on each and every project. However, we do need to maintain a professional relationship focused on putting patient safety and quality first.

As a physician group, patient safety is always our number one priority. Our project - which was carefully tailored to improve patient safety and quality while meeting the wants and needs of our patients and the community - has strong support from numerous employers in the Quincy area, elected officials, community organizations and leaders, patients, and other individuals.

Following the CON Board meeting, we have continued to receive overwhelmingly positive comments from the community supporting the project and encouraging us to continue with our efforts.

While we are moving forward with our project and have requested to reappear before the CON Board, we want to assure Blessing that we have no intention of abandoning Blessing Hospital or Blessing's surgery center. We intend to remain members of Blessing Hospital's medical staff, continue serving on Blessing Hospital committees and sharing call at Blessing Hospital with various departments, and participating in EMTALA coverage at Blessing Hospital. We have no intention of changing those relationships and responsibilities simply by virtue of the establishment of a new surgery center.

As I mentioned during our call last week, QMG is agreeable to meet with Blessing and engage in good faith discussions regarding potential collaborative and alignment efforts. Our planning and legal team has explored potential joint venture options in relation to the proposed surgery center, along with the existing surgery center, and we have concluded that a joint venture option is likely not viable from a legal or business standpoint. Additionally, we have spoken with local employers and organizations since the CON Board meeting, and they have voiced reservations regarding any cooperative venture that would result in co-ownership of a surgery center between QMG and Blessing as they, like QMG, believe strongly that patient choice, competition, and cost reduction are good for both patients and the community.

There are numerous collaborative and alignment opportunities that we believe can be further explored. To that effect, I have enclosed a comprehensive proposal regarding various alignment opportunities for Blessing's consideration. The proposed opportunities for alignment include, without limitation, shared governance and clinical alignment through shared service lines. You may recall that we previously submitted this proposal to Blessing for consideration on June 25, 2018. We understand that Blessing was not interested in the comprehensive proposal at that time and that Blessing's Board felt it important to begin discussions on a smaller scale. Those discussions essentially stalled upon the filing of our application. QMG is optimistic that in light of the recent comments made by the CON Board and based upon community feedback, Blessing may now be willing to further explore these collaborative alignment opportunities on a smaller or more limited scale, including focusing on individual initiatives aimed at improving patient safety and quality. In addition to patient safety and quality, which are of utmost importance, QMG is also agreeable to collaborate and work with Blessing on expense reduction efforts – similar to a gain-sharing arrangement.

Exhibit 6

If Blessing is interested and agreeable to meet and participate in a good faith discussion regarding the collaborative and alignment opportunities set forth in the enclosed proposal and mentioned above, QMG is agreeable and available to meet on either April 17 or April 22.

I look forward to hearing from you.

Sincerely,

TPetty

Todd Petty, MD
Chairman, Board of Directors
Quincy Medical Group

cc: Julie Brink, Chairman, Blessing Hospital Board of Trustees
Maureen Kahn, President/CEO, Blessing Corporate Services
Carol Brockmiller, CMPE, CEO, Quincy Medical Group

Enclosure – Comprehensive Alignment Proposal

Exhibit 6

First presented
6-25-18

QUINCY MEDICAL GROUP AND BLESSING CORPORATE SERVICES
ALIGNMENT OPPORTUNITIES

I. Introduction

This document describes the general elements of a proposed integration plan between Quincy Medical Group (QMG) and Blessing Corporate Services (BCS) which, if accepted, will be further detailed in a letter of intent initially and in subsequent definitive agreement(s).

This document is not intended to be a binding agreement among the parties; however, it is expected that robust discussion and alignment on these elements is reached by August 31. We recognize that regulatory and legal issues will require time and focus. A binding agreement or a commitment to enter into the agreements detailed below and any related transactions will not exist unless and until the parties have negotiated, approved, executed and delivered definitive agreements, to be completed by September 30.

II. Overall Benefits of Alignment

A renewed, aligned relationship between QMG and BCS/Blessing Hospital would provide significant benefit to both organizations and the Quincy community, including:

» Improved care coordination
» Reduced duplication of services
» A stable physician network
» A foundation for future growth (e.g., insurance offering, new services)
» Provision of more coordinated, cost-effective, high quality care to the residents of the region

Exhibit 6

III. Foundational Elements

In order to realize the full benefit of a renewed relationship between QMG and BCS, there are several foundational elements that must be in place to ensure full alignment between the two organizations.

Component	Description	Benefit(s) to QMG	Benefit(s) to BCS
Governance and Leadership	QMG holds three seats on the BCS Board, as regular members, without dismissal during any discussions to promote full transparency, by January 2019. QMG holds two seats on the Blessing Hospital Board by January 1, 2019. In both cases we recommend the physician chosen be a QMG Board member.	➢ Greater involvement in BCS Board planning will ensure coordination across both BCS and QMG to efficiently provide services to the community. ➢ QMG's participation on BCS' Board allows for full transparency and promotes inclusion of QMG's private practice model within BCS' physician network.	➢ A new relationship with QMG on BCS' Board creates a foundation for a more sustainable healthcare delivery system in Quincy long-term. ➢ As a viable BCS physician network strategy, QMG will support specific BCS initiative execution and minimize needed network investments.
Physician Leadership	QMG will provide management services to BPS and Hannibal Clinic. We propose discussion of managing the contracts with other Blessing affiliated physician groups (e.g. pathology, CRSC, anesthesiology, S.C.) beginning January 2019.	➢ Managing BCS and HC physicians will increase alignment, integration, and efficiency ➢ Leading recruitment and retention initiatives, in coordination with service line JOCs, can secure QMG's alignment with BCS while preserving QMG's independence and providing a health system employment model to attract providers who may be looking for both models.	➢ BCS positions its physician network operations and finances with QMG's medical group leadership for optimal performance.

Exhibit 6

First presented
6-25-18

Component	Description	Benefit(s) to QMG	Benefit(s) to BCS
Financial Integration & Collaboration	New contracting arrangements and shared financial risk opportunities (e.g., joint venture opportunities, ACO participation, service line co-management), with planning during the second half of 2018.	➢ Further financial integration will offer QMG new revenue streams and secure existing contracts with Blessing Hospital.	➢ Increased collaboration and aligned incentives between QMG and BCS would promote the reduction in the cost of care, as well as the delivery of care in the most appropriate settings.
Clinical Service Line Oversight	Major clinical service lines (e.g., orthopedics, cardiology, oncology) will be overseen by a joint operating committee (JOC) with representatives from both QMG and (BPS)/BCS starting January 2019, with planning during the second half of 2018.	➢ Increased involvement and integration in decision-making for clinical operations will improve physician coordination and satisfaction, and increase operational efficiencies (e.g., optimized OR scheduling and management)	➢ QMG will assist BPS and Blessing Hospital to effectively implement growth plans and minimize physician recruitment needs. ➢ QMG will support BPS maturity, providing clinical leadership in coordination with administrative staff.
Current Health Network Participation	QMG will become a Tier 1 provider exclusive to BCS covered lives by January 1, 2019.	➢ In-network participation will reduce costs and increase access for BCS covered lives.	➢ A stable physician network that includes QMG is more attractive to BCS employees, and ensures more services are provided closer to home.

Exhibit 6

IV. Additional Alignment Opportunities

The following alignment opportunities would further enhance the relationship and alignment between BCS and QMG and could be pursued once foundational alignment elements are finalized.

Component	Description	Benefit to QMG	Benefit to BCS
Marketing	Blessing Hospital and QMG will be positioned as an integrated healthcare delivery system in the market, including but not limited to, QMG physicians listed on Blessing Hospital's website by August 1, 2018.	➢ Inclusion in Blessing Hospital's website and marketing materials will improve the community's perception of both organizations and enhance QMG's market position.	➢ Co-marketing will increase transparency and patients' clarity of options. ➢ Increased alignment with QMG through co-marketing will improve physician relationships and satisfaction.
Clinical Data Sharing	QMG and BCS EMRs will be integrated or use an interface platform to share clinical data, with IT planning during the second half of 2018. We propose discussing the use of Epic as a common EMR across both organizations.	➢ Sharing clinical data will improve care coordination and quality and help reduce the cost of care.	➢ Data connection will enhance QMG's ability to participate in service line and medical group management. ➢ Better coordination will minimize service duplication and avoid unnecessary services.

Exhibit 6

BLESSING
Health System

P.O. Box 7005 Quincy, IL
217-223-8400
www.blessinghealthsystem.org

March 27, 2019

<u>Via Hand Delivery & Email Communication</u>

Ms. Carol Brockmiller, CEO
Quincy Medical Group
1025 Maine Street
Quincy, IL 62301

Dear Carol:

To positively address issues raised by QMG before the Health Facilities & Services Review Board concerning the Blessing Surgery Center, Blessing Hospital staff and Dr. Joe Meyer initiated dialogue at the Monday, March 18, 2019 Medical Consulting Committee (MCC) meeting about QMG's stated issues, including extended hours at the Surgery Center. Unfortunately, as you may know, not all QMG physician members on the Committee attended the meeting even though QMG's Surgery Center issues were noted in the written agenda distributed days before the meeting. The QMG members in attendance indicated that the QMG Surgery Center issues were concerns of those who were not present at the meeting and chose to not discuss them. Nonetheless, in Blessing Hospital's continuing good faith efforts to collaborate with QMG, and to address and resolve the Surgery Center issues raised by QMG, Blessing Hospital and the Quincy Anesthesia Associates (QAA) are prepared to begin extended hours as noted below:

- Monday – Thursday: one (1) OR will be staffed to operate until 5:00pm (surgical close time). We estimate that patient recovery may take as long as an additional two (2) hours.
- Monday – Thursday: two (2) GI rooms will operate until 5:00pm (last patient arrival time) for one (1) gastroenterologist.
- Saturday: one (1) OR will be staffed to operate on two (2) Saturdays per month of OR availability from 8:00am – 12:00 noon of actual OR time. Preoperative and recovery time will need to be added to these hours to accommodate the entire surgical process. For April, the Saturdays we are prepared to staff are April 13th and 27th. The additional Saturday will be forthcoming shortly.

In order to make these additional hours of operation work, we will need to work with your personnel to ensure that the patients and staff can egress into and from the building. Our plans anticipate that we will be ready to extend these hours starting April 1, 2019.

Blessing Hospital personnel working on this initiative include Elliot Kuida, Tim Tranor and Lori Wilkey. If you can please let me know who their QMG counterparts will be, I am sure they can work out the details to operationalize this plan. If you have any questions or comments for me about this initiative, please feel free to call me at 223-1200, ext. 6807.

Sincerely,

Maureen A Kahn

Maureen A. Kahn
President/CEO

Cc: Joe Meyer, MD
Quincy Anesthesia Associates

Exhibit 7

QUINCY MEDICAL GROUP

March 28, 2019

SENT BY E-MAIL AND HAND DELIVERY

Maureen A. Kahn, President/CEO
Blessing Health System
P.O. Box 7005
Quincy, IL 62305

Dear Ms. Kahn:

I am in receipt of your letter dated March 27, 2019 regarding the March 18, 2019 Medical Consulting Meeting and your announcement that Blessing and Quincy Anesthesia Associates have decided to extend hours at Blessing's surgery center beginning April 1, 2019.

QMG is appreciative of your letter and Blessing's willingness to address one of QMG's stated concerns with the existing surgery center. This very recent initiative, while appreciated, does not resolve all our stated concerns regarding the existing surgery center or the need for a new surgery center in Adams County. Our decision to pursue the new surgery center is multi-faceted and not based solely on operational limitations, although those limitations certainly play a role in our decision.

I would be remiss not to address two statements from your letter – one in relation to those in attendance and the other pertaining to the circulation of the proposed agenda – as there appears to be an implication that QMG physician member attendance was intentionally low at the meeting due to the topics listed on the agenda. Your letter specifically states that "not all QMG physician members on the committee attended the meeting even though QMG's surgery center issues were noted in the written agenda distributed days before the meeting" and that QMG physician members in attendance at the meeting "chose to not discuss" the surgery center issues.

As I was not present at the meeting, nor were you, I spoke with QMG physicians in attendance at the meeting to address your statements. Based on those conversations and my review of e-mail correspondence from a Blessing representative, it is my understanding that topics specific to QMG stated concerns in relation to the surgery center were added to the previously-circulated agenda on the afternoon of the day of the meeting, not days before the meeting. As for your reported attendance concerns, the QMG physician members not in attendance had prior commitments or planned absences, including one who was attending a family member's wedding out of state. I was also informed that Blessing's own Chief of Surgery was not in attendance. Further, it is my understanding that discussions did, in fact, take place regarding the items listed on the agenda, but that a valid concern was raised that many of the topics listed impacted a larger audience (from QMG and Blessing) than the physicians present.

All that aside, QMG is happy to assist and provide input as to Blessing's decision to extend hours at its surgery center. I will discuss your letter in greater detail with members of our Board and team, and we will be in touch with names of QMG counterparts, as requested.

Sincerely,

Carol Brockmiller

Carol Brockmiller, CMPE
Chief Executive Officer
Quincy Medical Group

Exhibit 8